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Foreign Economic Administration

CIVIL AFFAIRS INFORMATION GUIDE
BANK ACCOUNTING
AND OPERATIONS
IN JAPAN

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FOREWORD

This guide contains eleven chapters. Chapter I deals with a brief resume of background information up to 1941; Chapters II to X are devoted to a detailed explanation of Bank Accounting Procedures and Operations, and Chapter XI concerns wartime changes in financial organizations resulting from government action, and minor modifications in banking operations.

The appendices contain the names of the various financial statements prepared by Japanese Banks; the vocabulary used in this guide in English, in Romanized Japanese and in Japanese; the names and the types of books kept by Japanese banks as well as the important contracts between banks and their customers are shown in their original forms with translations; and the names, location, and the number of students of the Japanese educational institutions where economics, commerce, and accounting are taught.

To begin with, it must be understood that the principle of debit and credit applied in the Japanese Bank Accounting System is the same as that of the western countries. However, the *Dempyo* system of entry making and the Day Register Book, which is based upon the *Dempyos*, used by the Japanese banks is foreign to Occidentals. Nevertheless, the debit and credit in the Ledger and in the Balance Sheet are the same as that used in the Double Entry Bookkeeping System of western countries.

In summarizing briefly the methods of financing Japanese war industries and the present banking structure, the former is done chiefly by the Wartime Finance Bank by means of advances to its assigned industries; by the "Big Five" banks through loans on Munitions Bills to their designated industries and the Industrial Bank of Japan by means of Discount. The position of the Industrial Bank of Japan, however, has become less important since the Big Five banks began to take an active part in the financing of war industries. Besides these, there are many groups of smaller banks and other financial institutions that supply funds to the Big Five banks, the Industrial Bank, the Wartime Finance Bank and to the government, to be redistributed to the armament industries.

In regard to the present Japanese banking structure, there has been a drastic reduction in the number of banks under the direction

of the Minister of Finance. The task of financing war industries was delegated mainly to the small and powerful group comprising the Big Five banks, who are under the strict control of the government. They can no longer be regarded as private organizations as they hold more responsible positions in carrying out the government orders than many of the Special Banks.

The so-called Designation System of financing war industries clearly divides the structure of Japanese banks into two categories; one is for the financing of armament industries and the other is for the absorption of savings. The Bank of Japan has now become the super government organ, in name as well as in fact, under whose direction the two distinct functions are carried out.

I. INTRODUCTION

A. DEVELOPMENT OF ACCOUNTING SYSTEM IN JAPAN

The first enterprise which Japan undertook to modernize according to Western patterns after the Meiji Restoration was in the field of banking. When the National Bank Act was proclaimed in 1872, it became necessary to train the personnel of the banks to carry on the operations along the new lines. Hence, a Banking Education Bureau was established in 1874 in the Banking Department of the Ministry of Finance. An Englishman was employed as the first teacher. In January 1877 this school was closed, but in the following month a new training school was opened principally to teach accounting methods to bank employees.

The Mitsubishi Company had established the first private commercial school in February 1878, and gave special 6-months' training courses in bookkeeping and mathematics. It was closed in 1882. Another private institution called the Banking Training School was organized in Tokyo, but it was taken over by the Ministry of Finance in 1882. Four years later, the jurisdiction over this school was shifted to the Ministry of Education where courses on accounting methods for banks as well as for the government were taught. From 1886 to the time of its discontinuance in 1893, the original Banking Training School underwent several changes in names and locations.

Among the first Japanese cities where Western commercial education was started were Kobe, Osaka, and Tokyo. Yokohama, Niigata, and Nagoya followed and in 1886, schools were established in Kyoto, Saga, and Nagasaki. By that time a system of government subsidizing of commercial education was introduced stimulating a considerable increase in the number of new schools in other cities; such as Kagoshima, Kumamoto, Kurume, Yokkaichi, Sendai, Toyama, Takaoka, Okayama, Shizuoka, Kochi, and Hakodate.

Japan today has a well assimilated Western system of accounting, theoretically and practically adapted to her own peculiar needs and customs. Unquestionably, it is firmly established as one of the highly developed sciences in Japan.

In a book called "The Philosophy of Accounts" written by Charles Ezra Sprague, the author states that—

"The balance sheet may be considered as the groundwork of all accountancy, the origin and the terminus of every account."

To this statement, one of the outstanding accounting theorists in Japan named Norisuke Ueno expressed the opposite viewpoint, stating that—

“The balance sheet may be considered as the terminus, but not the origin of every account. The balance sheet is the assembly of some of the balances of ledger accounts and the bookkeeping of each transaction to produce the balance of each ledger account must be done first.”

As to the division between bookkeeping and accounting, most of the accounting theorists in Japan seem to be of the opinion that bookkeeping deals primarily with the devising of proper accounts, forms of books and scientific methods of recording each transaction which would show the true picture of the financial status. Accounting (KAIKEI GAKU or KEIRI GAKU), on the other hand, deals primarily with the study of properties and their fullest utilization in business which naturally means the careful study and analysis of all asset and liability accounts as well as the profit and loss accounts. This argument is further emphasized, according to Ueno, by the theory that although an enterprise is a unit of activity which supplies human needs, the phenomenon today is that enterprise is conditioned not by human needs, but by the profit motive of the entrepreneur. To realize profit in a given enterprise, the capital has to be utilized most profitably. The most efficient utilization of capital would, in turn, require a careful study of all assets, liabilities and profit and loss accounts. The study and analysis of these accounts for the purpose of realizing maximum profit is a most important independent science and should be separated from bookkeeping.

B. PROFESSIONAL ACCOUNTANTS AND LAWS

The first professional accounting organization in Japan was the Morita Accounting Inquiry Bureau. It was established by an ex-professor of accounting of the Osaka Business College in 1907. In May 1916, another accounting office was opened in Kobe by a professor of the Kobe Business College. By 1920, there were nine accountants in Tokyo City alone. In 1921, the Japan Society of Public Accountants (NIPPON KAIKEISHI KAI) was organized in Tokyo. Since the last World War and the accelerated development in Japanese commerce and industry that followed, there has been a tremendous expansion in this profession. In December 1942, there were 14,970 registered accountants with about 14,500 offices in Japan. In large metropolitan cities, such as Tokyo and Osaka, there were 5,347 and 2,419 accountants respectively.

Due to the occupational competition among the accountants,

their prevailing complaint is that the scholastic standard for accountancy is too low. Ihachi Otsuki, in his book on Bank Auditing, states that the Accountants Law of 1927 is a law merely defining the qualification of accountants without providing for the economic protection of accountants. He believes measures should be adopted protecting the more highly qualified experts from their less experienced competitors.

An Article entitled "The Accountancy Profession in Japan" by Yoshio Watanabe in the Accounting Review of December, 1939, published by the American Accounting Association reveals that the Japan Society of Public Accountants (NIPPON KAIKEISHI KAI) mentioned in a previous paragraph has changed its name to the Japan Society of Accountants (NIPPON KEIRISHI KAI)¹ soon after the Accountants Law of 1927 was passed. The Accountants' Societies existing in Japan as of the end of 1939 are listed below:

- a. Japan Society of Accountants in Tokyo (NIPPON KEIRISHI KAI).
- b. The Tokyo Society of Accountants in Tokyo (TOKYO KEIRISHI KAI).
- c. The Whole-Japan Society of Accountants in Tokyo (ZEN-NIPPON KEIRISHI KAI).
- d. The Osaka Society of Accountants in Osaka (OSAKA-FU KEIRISHI KAI).
- e. The Aichi Prefecture Society of Accountants in Nagoya (AICHI-KEN KEIRISHI KAI).
- f. The Hyogo Prefecture Society of Accountants in Kobe (HYOGO-KEN KEIRISHI KAI).
- g. The Kyoto Society of Accountants in Kyoto (KYOTO-FU KEIRISHI KAI).
- h. The Japan Society of Accountants Specialized in Auditing in Osaka (NIPPON KENSA KEIRISHI KAI).
- i. The Saitama Prefecture Society of Accountants in Urawa (SAITAMA-KEN KEIRISHI KAI).
- j. The Miyagi Prefecture Society of Accountants in Sendai (MIYAGI-KEN KEIRISHI KAI).
- k. The Whole-Kyushu Society of Accountants in Fukuoka (ZEN-KYUSHU KEIRISHI KYOKAI).
- l. The West Japan Society of Accountants in Osaka (NISHI NIPPON KEIRISHI KAI).
- m. The Shizuoka Prefecture Society of Accountants in Shizuoka (SHIZUOKA-KEN KEIRISHI KAI).

Among the above named, the first seven societies are incorpo-

¹ KEIRISHI is strictly limited to persons who have duly registered under the Accountants Law.
A KEIRISHI may be translated as a Chartered Accountant.

rated under the civil law and placed under the supervision of the Minister of Commerce and Industry. The last six are unincorporated. Besides the above named, there are the Imperial Accountants Society (TEIKOKU KEIRISHI KYOKAI) and the Japan Society of Cost Accountants. Although no accurate information on the former is available, it may be similar to the Japan Society of Accountants (NIPPON KEIRISHI KAI) which may have changed its name. The latter, i.e., the Japan Society of Cost Accountants, has its headquarters in Tokyo and has seven branches throughout the country and Korea; namely, Tokai branch, Osaka branch, Kyushu branch, Kita-Nihon (Northern Japan) branch, Tokanto branch, Hokuriku branch, and Korea branch. It handles the official publication known as Genka Keisan (Cost Accounting), published by the Genyu Kai (Friends of Cost Accountants). This magazine deals chiefly with the dissemination of cost accounting information and discussions on its various problems.

As for government regulation of accounting, the first auditing law passed the Diet in 1914. Several amendments followed and finally a new government bill was approved by the Diet and became Accountant Law #31 on 31 March 1927.

The law provides for the scholastic standards and other requirements concerning accountants. Japanese citizenship is necessary, but a foreigner may be approved for practice by the Minister of Commerce and Industry. Scholastic standards involve the passing of the examination or the successful completion of accounting study and related subjects in the various levels of Japanese educational institutions such as the Imperial Universities, universities recognized under the university ordinance, colleges recognized under the college ordinance and other universities and colleges which are considered as being on a similar level as those mentioned above. Other persons eligible for admission when the law passed were:

a. Those who were engaged in auditing, investigation, valuation, certification, calculation, adjustment and planning relating to accounting for one year or more at the time when the law became effective.

b. Those who were graduated from the economic departments of the Imperial Universities, or other accredited universities or colleges and who were engaged in occupations mentioned in the above paragraph for three years and who applied for accountancy within five years after the law became effective.

The minimum requirement qualifying a person to take the examination is a completed high school education in Japan or the same from a foreign school. A person without this requisite education may still qualify if his knowledge of Japanese, Chinese, History,

Geography, Mathematics, Physics, Chemistry and foreign languages (English, French or German) are equal to or higher than those of the high school graduates. The examination is written and oral on accounting, bookkeeping, business mathematics, commerce, economics and civil and commercial laws. Also, an additional subject is chosen from one of the following topics: Economic Policy (Commercial and Industrial Policies), Money and Banking, Commodities, Commercial and Industrial Administration, Finance, Bankruptcy Laws, and Criminal Laws. All accountants are required to register with the government and pay a fee of 20 yen.

C. BRIEF RESUME OF PREWAR JAPANESE BANKING SITUATION

1. Kinds of banks

The Japanese banks in prewar times were divided into three main groups; Special Banks, Ordinary Banks, and Savings Banks. The special banks included the Bank of Japan, the Yokohama Specie Bank, the Industrial Bank of Japan, the Hypothec Bank of Japan, the Bank of Chosen, the Industrial Bank of Chosen, The Bank of Taiwan, and the Hokkaido Colonial Bank. They were semiofficial in character, organized under a special charter and functioned for special purposes. The ordinary banks were private banks, performing commercial as well as investment bank functions. They operated under the banking registration, general commercial and financial provisions of other laws and ordinances. The ordinary banks were subdivided into large city banks, which were generally called the ordinary banks, and local banks, which were usually smaller in size than the former, and were known as the provincial banks. The ordinary banks included the so-called seven largest banks of prewar times, controlled by the ZAIBATSU and closely tied to their powerful business interests. The local banks, on the other hand, had their business offices within one or a few prefectures engaged chiefly in the financing of local business transactions. The savings banks were also private concerns, organized under the savings bank law, operating for the main purpose of absorbing the smaller sums of the people's savings. They had the special privileges of receiving deposits in amounts of less than 10 yen at one time at compound interest, and were allowed to handle the two distinct savings accounts known as the *Deferred Savings* (SUEOKI CHOCHIKU) and the *Fixed Savings* (TEIKI TSUMI-TATE).

2. Relative importance of different groups of banks

The important changes which took place in the Japanese banking system during the late 'thirties involved the drastic reduction of

the number of banks and alteration in the characteristics of banks. At the end of 1937, there were 13 special banks, 377 ordinary banks, and 72 sayings banks, totaling 462 with the total of 4,240 branches. This was reduced to 8 special banks, 88 ordinary banks and 29 savings banks in April 1944. The reduction in number itself indicates the concentration of banking functions into the hands of a few powerful groups. This situation, together with the changes in the characteristics of Japanese banks, will be dealt with in detail in chapter XI. As to the relative importance of the previously mentioned four groups of banks, the following table is presented to indicate their importance in Japanese economic life of prewar times:

BANK DEPOSITS

(In million yen)

End of Dec. 1941

Kinds of deposits	Special banks ¹	Ordinary banks	Local banks	Savings banks	Total
Public funds -----	62				62
Current account -----	255	5,019	1,653		6,927
Special current account -----	363	6,385	2,878		9,626
Deposits at notice -----	266	2,808	425		3,499
Fixed deposits -----	1,090	14,851	4,823	21	20,785
Others -----	818	333	126		1,277
Ordinary and deferred savings -----		5		3,830	3,835
Fixed savings -----				1,691	1,691
	2,854	29,401	9,905	5,542	47,702

¹ Bank of Japan figures are not included.

BANK LOANS

(In million yen)

End of Dec. 1941

Kinds of loans	Special banks ¹	Ordinary banks	Local banks	Savings banks	Total
Loans on bills -----	175	11,157	2,532		13,864
Loan on deeds -----	2,296	641	470		3,407
Overdrafts -----	86	1,742	534		2,362
Discounts -----	2,926	1,603	484		5,013
Other loan -----				360	360
Call loan -----	139	526	123		788
	5,622	15,669	4,143	360	25,794

¹ Bank of Japan figures are not included.

The above tables indicate the predominant position held by the ordinary banks. At the end of 1941, the ordinary banks held 61

percent of the total deposits and 60 percent of the total loans. The local banks, on the other hand, held 20 percent of the total deposits and 16 percent of the total loans. The ordinary and the local banks held, in the same period, 82 percent of the total deposits and 76 percent of the total loans. Among the ordinary banks there were in 1941 the seven so-called "Big" banks; namely, the First, Mitsui, Mitsubishi, Sumitomo, Yasuda, Sanwa, and the One Hundred Banks. Each of these banks had total assets in excess of one and one-half billion yen in the middle of 1941, with 58 percent of the deposits, 66 percent of the loans and 47 percent of the security holdings of all ordinary banks. Most of the powerful Japanese banks are concentrated in the six largest commercial districts; namely, Tokyo, Osaka, Kobe, Yokohama, Kyoto, and Nagoya, and have numerous branches throughout the country, as well as in Korea, Formosa, Manchuria, and Occupied China.

3. Government measures enacted to control banks

Since 1937, the Japanese Government took various measures to exercise stricter control over the banks in order to provide adequate funds for the munitions and armament industries and to absorb government bond issues. On 10 September 1937 the Temporary Funds Adjustment Law (RINJI SHIKIN CHOSEI HO) was promulgated by law #86 and there have been several amendments since then; by the laws of #68 and #86 in 1939, by #70 in 1940 and by #18 and #39 in 1941. On 25 September 1937 the Enforcement Order of the Temporary Funds Adjustment Law (RINJI SHIKIN CHOSEI HO SHIKO REI) was made public by Imperial Order #527. It also underwent several amendments; one in August 1938 by Imperial Order #590 and the other in April 1939 by Imperial Order #224.

The purpose of the law is stated in Article 1, i.e., to make proper adjustment in the utilization of funds in order to meet the needs for materials and capital funds required by the "China Incident." The main aims of the law and the enforcement order were to prevent the flow of capital funds into non-strategic industries and to provide means for the raising of funds for strategic industries. By this law the government controls the activities of financial organizations and acceptance companies. In the former is included banks, trust companies, insurance companies, the Central Bank for Industrial Cooperatives (SANGYO KUMIAI CHUO KINKO), the Central Bank for Commercial and Industrial Cooperatives (SHOKO KUMIAI CHUO KINKO) and the Federation of Credit Cooperatives in Hokkaido (SHINYO KUMIAI RENGU KAI).

The latter includes those which are not financial organizations, but engaged in the acceptance and flotation of securities.

Article I of the Enforcement Order stipulates that any financial organization or acceptance company which proposes to make a loan for capital funds to, or handle the security flotation for business concerns amounting to 50,000. yen or more must first obtain permission from the Minister of Finance, regardless of whether the loan to a person or firm is a single item or several. This limitation is reduced to 30,000. yen for the proposed loan to those who are engaged in toilet articles manufacturing, moving picture industries, hotel and theatrical businesses, retail and wholesale businesses and social entertainments, etc. Furthermore, the Enforcement Order states that the establishment of a new business whose proposed capital is more than 200,000. yen requires permission from the Minister of Finance. These limitations are naturally not applied to those concerns which are engaged in defense industries or those organized under other laws.

On the other hand, the above law and the enforcement order provide additional means to finance war industries; Article 6 of the law provides that the Industrial Bank of Japan can issue debentures up to 2 billion yen¹ and the government is to guarantee the payment of interest and principal of the debentures. In Articles 13 and 14, the law permits the Industrial Bank of Japan to issue Savings Bonds (CHOCHIKU SAIKEN) up to the amount of receipt from the sale which reaches one billion yen at a par value of 20. yen or less in a bearer form (MUKIMEI SHIKI). Furthermore this bank is also permitted to issue the Patriotic Bonds (HOKOKU SAIKEN) up to the amount of receipt from the sale which reaches 500. million yen at the par value of 10. yen or less in a bearer form. Article 9 of the law stipulates that a business concern which is engaged in a defense industry can issue bonds up to the amount equal to twice the paid up capital.

The administration of the law was delegated to the Bank of Japan through whom the Minister of Finance issues permits and the bank officials who perform the duty are regarded as public officials. The law also provides for the creation of the Temporary Funds Investigation Committee (RINJI SHIKIN SHOSA IINKAI) and empowers the government to request all business concerns for reports dealing with funds, securities, foreign transactions and their plans for the utilization of funds and also gives the right to inspect their books. Penalties for the violation of the law are also provided for in the law.

¹ The amount of debentures to be issued for the purpose of converting the old bonds is to be excluded from this limitation.

Other government measures affecting banking operations were the General National Mobilization Law of 1938, the Decree on Division of Profit and the Utilization of Funds of Companies (KAISHA RIEKI HAITO OYOBI SHIKIN YUZU REI) of 21 March 1939. In May 1939 the capital of the Industrial Bank of Japan was raised from 50 million yen to 200 million yen. At the same time a new War Finance Department (SENJI SHIKIN YUZU BU) was established in the Industrial Bank. On 16 October 1940 a sweeping ordinance was issued based on Article XI of the National Mobilization Law. It is known as the Decree on the Application of Funds of Banks, etc. (GINKO NADO SHIKIN UNYO REI) and it became effective in Japan proper on 20 October 1940 and in Korea, Formosa, Karafuto and the South Seas Islands on 5 November 1940. The Enforcement Rules (SHIKO KISOKU) of this Decree was also made public on 22 November 1940.¹ This Decree was directed to three different groups: the financial organizations, acceptance companies, and bill brokers. The financial group consisted of banks, trust companies, insurance companies, the Central Bank for Industrial Cooperatives (SANGYO KUMIAI CHUO KINKO),² the Central Bank for Commercial and Industrial Cooperatives (SHOKO KUMIAI CHUO KINKO), the Federation of Credit Cooperatives in Hokkaido and Karafuto, the Federation of Credit Cooperative Associations in Korea (CHOSEN KIYU KUMIAI RENGO KAI), the Oriental Development Company (TOYO TAKUSHOKU KABUSHIKI KAISHA), the Formosa Development Company (TAIWAN TAKUSHOKU KABUSHIKI KAISHA), and the South Seas Development Company (NANYO TAKUSHOKU KABUSHIKI KAISHA). The acceptance companies operate under the Securities Acceptance Law (YUKASHOKEN HIKIUKE GYO HO), and the bill brokers act as middlemen in call loans and bill transactions.

The Decree on the Application of Funds placed the above-named organizations under complete control of the government. Under this Decree banks were required to submit their plans for the coming fiscal half year, an estimate of expected deposits and the plans for the investment of funds and the making of loans. The amount of loans to be made on discounts, on bills, deeds and overdrafts were limited. The government was empowered to order banks to undertake loans on certain industries and to subscribe or to purchase government bonds. Article 8 of the order elaborates the rules for compensation by the government for losses incurred in

¹ The Decree and the Enforcement Rules are slightly amended subsequently, the date of which is not known. The analysis of the decree contained in this guide is based upon the latest information available on the subject and it differs slightly from the original provisions.

² The Japanese KINKO is sometimes translated as Chest, Depository, or Bank. In this guide it is translated as Bank.

the loans made under the government order. Article 9 explains further that compensation is to be made with government bonds. Thus the autonomous character of the private banking system has completely disappeared.

II. BANK ENTRIES, ACCOUNTS AND FUNCTIONAL CLASSIFICATION OF A BANK

A. DEMPYO SYSTEM

1. Purpose for which the dempyos are used

The *dempyo*, which can be translated as the advice slip, is a slip of paper containing concise and pertinent information about a given transaction. Since a business transaction usually affects more than one department in a bank, it would undoubtedly be necessary and convenient to have a method of conveying the necessary information concerning the transaction between the departments affected. Verbal communications would entail various problems; such as involving risks of misinformation and incomplete data, or difficulty of producing proof when such proof is requested or required. The use of the *dempyo* in Japanese Banks is meant to eliminate these risks as well as to promote efficiency and accuracy in recording the many complicated business transactions. Before entering into the discussion of the *dempyo*, it may be advisable to present and illustrate the different methods used in the entry making of business transactions between the ordinary bookkeeping system and the bank bookkeeping system in Japan. The ordinary bookkeeping system is the method used by business organizations in general.

2. Different methods used between the ordinary and the bank entry making systems

The ordinary entry making system used in Japan differs in no way from the *Double Entry* system used in this country. The bank entry making, however, is a system based upon the assumption that all business transactions involve the receipt and the payment of cash regardless of whether they actually do or not. Thus the bank entry making system is sometimes called the *Cash Entry System* (GENKIN SHIWAKE HO) or the *Dempyo Entry System* (DEMPYO SHIWAKE HO). Under this system, however, no cash account is shown on the *dempyo*, even though an entry is made on an actual cash transaction. Instead, a Cash Receipt Dempyo or a Cash Payment Dempyo is prepared. Assuming that Bank A receives a deposit of 5,000. yen into the current account from Mitsui & Co., the entry making in this transaction is as follows:

a. Ordinary entry making system:

<i>Debit</i>		<i>Credit</i>	
Cash	-----5,000. yen	Current Account;	
		Mitsui & Co.	---5,000. yen

b. Bank entry making system:

CASH RECEIPT DEMPYO

<i>Date</i>			<i>Amount</i>
<i>Account and Particulars</i>			
Current Account:			
Mitsui & Co.	-----		5,000. yen

As the above example indicates, the Cash Receipt Dempyo represents the *Debit Side* while the name of the account shown on the dempyo, the current account, is really a Credit Account in the ordinary entry making system. The Cash Payment Dempyo which represents the credit side is prepared by banks when a transaction involves actual cash payment. The underlying principle on which the payment dempyo is based is similar to that of the cash receipt dempyo. There are, however, many transactions which do not involve actual cash movement or only partial receipt or payment of cash. Let us assume that Bank A makes a 5,000.-yen loan on a bill to the Mitsui & Co. and deposits the amount in the latter's current account. The entry making in this transaction is as follows:

a. Ordinary entry making system:

<i>Debit</i>		<i>Credit</i>	
Loan on Bill;		Current Account;	
Mitsui & Co.	-----5,000. yen	Mitsui & Co.	---5,000. yen

b. Bank entry making system:

TRANSFER DEMPYO

<i>Debit</i>		<i>Credit</i>	
<i>Account and Particulars</i>	<i>Amount</i>	<i>Account and Particulars</i>	<i>Amount</i>
Current Account;		Loan on Bill;	
Mitsui & Co.	-----5,000. yen	Mitsui & Co.	---5,000. yen

As is shown in the above example, the entry making in the two systems is exactly in reverse. This is because Bank A regards the transaction as though there has been a cash receipt and a cash payment; that is, it has received 5,000. yen from Mitsui & Co. for deposit in the current account and has paid the same amount to the company for a loan. Under this assumption, if the bank is to prepare the Cash Receipt and Payment Demyos, the Current Account will be on the Cash Receipt Dempyo which represents the *Debit*

Side, and the Loan on Bill account will be on the Cash Payment Dempyo which represents the *Credit Side*.

As to the method of entry making of a transaction which involves part cash payment and part transfer, the principle involved in the preparation of the *dempyo* is similar to the above. Let us assume that Bank A made a loan on a bill to Mitsui & Co. for 5,000. yen, 1,000. yen of which is paid in cash and the rest deposited in its current account. Bank A prepares the following *dempyos*:

TRANSFER DEMPYO

<i>Debit</i>		<i>Date</i>	<i>Credit</i>	
<i>Account and Particulars</i>	<i>Amount</i>		<i>Account and Particulars</i>	<i>Amount</i>
Current Account;			Loan on Bill;	
Mitsui & Co. -----	4,000.		Mitsui & Co. -----	5,000.
			Balance Cash	
			Paid -----	1,000.
	4,000.			4,000.

PAYMENT DEMPYO

<i>Account and Particulars</i>	<i>Amount</i>
Loan on Bill:	
Mitsui & Co., part payment -----	1,000.

Under the ordinary entry making system, the entries for the above transaction are as follows:

<i>Debit</i>	<i>Credit</i>
Loan on Bill;	Current Account;
Mitsui & Co. -----	Mitsui & Co. -----
5,000.	4,000.
	Cash -----
	1,000.
5,000.	5,000.

The Entries and Day Register Book, which is explained in detail on page 23, is prepared on the same theory as that of the bank entry making system. Accordingly, this book is, in reality, similar to that of the Cash Receipt and Cash Payment Book; the debit side shows the actual cash receipts as well as the transfer receipts and vice versa. This method of classifying accounts into debit and credit, however, is not in harmony with the principle of debit and credit under the double entry bookkeeping method. Therefore, when it comes to transferring the amount of each account from the Entries and Day Register Book to the respective account in the Ledger (see page 24), which is also explained in detail later,

the debit and credit are completely reversed, excepting for the cash account in the Ledger.

3. Kinds of dempyos

The three kinds of dempyos, the Receipt Demyo, Payment Demyo, and Transfer Demyo, are explained as follows:

a. Receipt Demyo. The Receipt Demyo (NYUKIN or SHU-NO DEMPYO)¹ is prepared by each department or division whenever a transaction involves cash receipt. For example, the Receipt Demyo which represents the repayment of a loan, is prepared by the Loan Division while the Demyo representing the collection of a bill for a customer is prepared by the Collection Division. It contains the date of the receipt, the name of the credit account for which the money is received, the name of the person from whom the money is received and the amount of money received. The characters and the lines appearing on the *demyo* are usually printed in *Red Ink* in order to distinguish this *demyo* easily from others. The *Red*, therefore, represents the *Debit side* of the Entries and Day Register book and the *Credit side* of the Ledger book.

b. Payment dempyo. The Payment Demyo (SHIHARAI DEMPYO)² is prepared to record entries of a transaction which involves cash payment. It contains the date, name of the debit account for which the money is paid, name of the person to whom the money is paid and the amount of money paid. The characters and lines appearing on this *demyo* are usually printed in *Indigo* to signify the cash payment and to distinguish this dempyo easily from others. The *Indigo*, therefore, represents the *Credit Side* of the Entries and Day Register Book and the *Debit Side* of the Ledger Book.

Substitution of Receipts in place of Payment Demyos—for the purpose of simplifying clerical work and to minimize bank overhead expenses, cancelled checks, deposit withdrawal slips, cancelled bank drafts, etc.—are used in place of cash payment dempyos. Unlike American banks, the Japanese banks do not return cancelled checks to their customers. These cancelled checks are handled in exactly the same manner as the cash payment dempyos and are kept in the bank with other dempyos as bank records.

c. Transfer dempyo. The Transfer Demyo (FURIKAE DEMPYO)³ is used for the entry making of a transaction which does not involve cash or a transaction which involves a partial cash receipt or a partial cash payment. In the latter case, however, a receipt dempyo or a payment dempyo is made together with the transfer dempyo to complete the entry making for the transac-

¹ See item 1, appendix 3.

² See item 2, appendix 3.

³ See item 3, appendix 3.

tion. There are two types of transfer dempyos in use: one is where the debit and the credit entries are shown on one slip while the other shows the debit and the credit entries on separate slips. In either case, the debit side of the transfer dempyo has space for "Balance Cash Received" and the credit side of the dempyo has space for "Balance Cash Paid" to show the cash portion of the transaction when such indication is necessary. In some cases, however, the location of the space for balance cash received and paid are reversed and the majority of Japanese banks use two separate slips instead of one.

As in the case of the Receipt Demyo and the Payment Demyo, the name of the account shown on the debit side of the Transfer Demyo is in reality the credit account under the *double entry bookkeeping* system and vice versa. The characters and the lines shown on the debit side of the Transfer Demyo are printed in *Brown*,¹ while on the credit side, they are printed in *Green*. The *Brown*, therefore, represents the *debit side* of the Entries and Day Register Book while the *Green* represents the *credit side* of the same. On the Ledger, however the *Brown* represents the *credit side* and the *Green* represents the *debit side*.

4. Handling of dempyos

Each dempyo originates from the department in which the particular transaction takes place and all cash receipts and payment dempyos will naturally have to go through the Receipt and Payment Bureau. When the Loan Division makes a loan and deposits the proceeds into the customer's current account, it will make the transfer dempyo, debiting the current account and crediting the loan account. After recording all the particulars in the auxiliary books in the Loan Division, the current account dempyo is sent to the deposit division to record the deposit after it has been examined for accuracy by the manager. The Deposit Division then enters the amount on the credit of the customer's current account.

At the end of the business day, all dempyos are sent to the Accounting Bureau where they are classified according to debit and credit. The color scheme of the different kinds of dempyos, as stated in the previous paragraphs, simplifies this classification process. The *Indigo* of the cash payment dempyos and the *Green* of the credit transfer dempyos belong to the credit side and the *Red* of the cash receipt and the *Brown* of the debit transfer dempyos belong to the debit side.

The debit and the credit dempyos are again classified according to the names of the accounts appearing on them. *Summary Dem-*

¹ Printed in Tea or pink Peony colors, but for the sake of convenience it is translated as Brown.

pyo sheets are then prepared for each account, the size of which is exactly the same as the *dempyo*. The summary *dempyo* sheet contains: the name of the account; the number of transfer *dempyos* and their total; the number of cash *dempyos* and their total; and the grand total of all *dempyos* and their amount. The Accounting Bureau then totals the debit and credit transfer *dempyos* from the summary *dempyo* sheets, which should agree. Then the Accounting Bureau adds up the total cash receipts and the total cash payments from the summary *dempyo* sheets and checks the cash balance of the day with the Cash Receipt and Payment Bureau. On the following day, the Accounting Bureau prepares the Entries and Day Register Book (SHIWAKE NIKKI CHO) from the summary *dempyo* sheets, the Ledger Book from the Entries and Day Register Book¹ and the balance sheet from the Ledger. The Accounting Bureau then prepares two Grand Total *Dempyo* Slips (SOKATSU SHUKEI HYO) of which one is for debit and the other is for credit side. These slips show the total number and the total amount of transfer and cash *dempyos* and the grand totals of their number and amounts. They are placed on top of all *dempyos* of the corresponding side, bound and kept in the bank.

5. Handling of transactions which have no immediate effect on bank assets

Transactions which have no immediate effect on the bank assets and require no *dempyo* making include collection, safe deposit box rental and safe keeping. When a bank accepts bills and checks for collection from its customers, their receipts have no immediate effects on the bank assets until the bills and checks are collected. No *dempyo* making, therefore, is necessary at the outset. There are two types of collection requests: one is the bills, checks, etc., payable at home (TOSHO DAIKIN TORITATE); and the other is the bills, checks, etc., payable elsewhere (TASHO DAIKIN TORITATE)². Rental of safe deposit boxes is a comparatively new business in Japan. This operation may or may not affect the bank's assets at the outset depending upon whether the fee is received in advance or not. Safe keeping, as its name implies, means keeping of valuables, securities and the like by a bank for the customer and the bank may or may not receive fees in advance.

B. NAMES OF ACCOUNTS

Special banks maintain a few different accounts from ordinary banks due to the special characteristics of some of the functions they perform. In the case of ordinary banks, all accounts appear-

¹ See the preparation of Entries and Day Register Book and Ledger Book below.

² See Collection Division.

ing on their account settlement report have similar characteristics. The names of the accounts shown below are the names of the accounts prescribed by the Ministry of Finance to be used by ordinary banks in their balance sheets and their profit and loss statements.

1. Balance sheet items (ZANDAKA HYO or TAISHAKU TAISHO HYO KANJO)

a. Debit side (KARI KATA or SHISAN KANJO).

(1) Cash and deposits (GENKIN AZUKE KIN KANJO)¹:

(a) Cash (GENKIN or KINGIN).

(b) Deposits (AZUKE KIN)—Deposits with Bank of Japan (NIHON GINKO ENO YOKIN).

(c) Bullion and Foreign Currency (CHI KINGIN, GAIKOKU TSUKA).

(2) Call loans (KORU RON)².

(3) Securities (YUKA SHOKEN KANJO):

(a) National Government Bonds (KOKU SAI):

National bonds on hand (UCHI TEMOTO ARITAKA).

(b) Local Bonds (CHIHO SAI).

(c) Foreign Government Securities (GAIKOKU SHOKEN).

(d) Corporation Bonds (SHASAI).

(e) Stocks (KABUSHIKI).

(4) Bills discounted (WARIBIKI TEGATA KANJO):

(a) Bank Acceptance Bills (GINKO HIKIUKE TEGATA).

(b) Commercial Bills (SHOGYO TEGATA).

(c) Bills Secured by Goods (NITSUKE KAWASE TEGATA).

(5) Loans (KASHITSUKE KIN KANJO)³:

(a) Loans on Bills (TEGATA KASHITSUKE).

(b) Loans on Deeds (SHOSHO KASHITSUKE).

(c) Overdrafts (TOZA KASHIKOSHI).

(6) Loans of Securities (KASHITSUKE YUKA SHOKEN).

(7) Foreign Exchange (GAIKOKU KAWASE KANJO):

(a) Foreign Exchange Purchased (KAIIRE GAIKOKU KAWASE).

(b) Interest Bills (RITSUKE KAWASE TEGATA).

(c) Due from Foreign Correspondents (GAIKOKU TATEN KASHI).

¹ The Yokohama Specie Bank calls its *Current Accounts with Bankers* (TOZA YOTAKU KIN) and its *Special Deposits with Bankers* (BETSUDAN YOTAKU KIN). It also handles the *Public Loans and Coupons Funds Deposited with Bankers* (KOSAI GAN-RI SHIHARAI KI-YOTAKU KIN). The last item represents the funds deposited with other banks for the purpose of paying interests and principals on public loans.

² The Yokohama Specie Bank handles Call Loans and Loans on Deeds (SHOSHO KASHITSUKE) in its *Advances Account* (KASHITSUKE KIN KANJO).

³ Besides the accounts listed under the heading, the Yokohama Specie Bank carries the *Advance to Government Account* (SEIFU KASHI-AGE KIN KANJO), *Bad and Doubtful Debts Account* (TODOKORI KASHI KIN KANJO) and the *Advances for Export Bills Account* (YUSHUTSU KAWASE MAEGASHI KANJO). The last named represents advance made by the bank against the exportable merchandise until it becomes ready to export. The bank will, then, purchase the bill on the merchandise. The Yokohama Specie Bank handles the loans on deeds in *Advances Account*.

- (8) Due from Correspondents Account—Domestic (TATEN KASHI KANJO).
- (9) Due from Agency Account (DAIRITEN KASHI KANJO).
- (10) Liabilities of Customers for Acceptances and Guarantees (SHIHARAI SHODAKU MIKAERI KANJO).
- (11) Movable and Immovable Items (DOSAN FUDOSAN KANJO):
 - (a) Land, Building, Furniture and Fixtures used in Operation (EIGYO YO DOCHI TATEMONO JUKI).
 - (b) Movable and Immovable Properties in Possession (SHOYU DOSAN, FUDOSAN).
- (12) Stockholders' Accounts (KABUNUSHI KANJO):
 - Unpaid Capital (HARAIKOME MISAI SHIHON KIN)
- b. *Credit side* (KASHIKATA KANJO).
 - (1) Deposits (YOKIN KANJO):¹
 - (a) Current Accounts (TOZA YOKIN).
 - (b) Special Current Accounts (TOKUBETSU TOZA YOKIN).
 - (c) Deposit at Notice Accounts (TSUCHI YOKIN KANJO).
 - (d) Fixed Deposit Accounts (TEIKI YOKIN KANJO):
 - (e) Miscellaneous Deposit Accounts (ZATSU YOKIN KANJO):
 1. Special Deposit Account (BETSUDAN YOKIN KANJO).
 2. Deposit Certificate Account (YOKIN TEGATA).
 - (2) Borrowed Funds (SHAKUYO KIN KANJO):²
 - (a) Borrowed on Deeds (KARIIRE KIN KANJO).
 - (b) Rediscounted Bills (SAI-WARIBIKI TEGATA).
 - (3) Call Money (KORU MANE)³.
 - (4) Borrowed Securities (KARIIRI YUKA SHOKEN).
 - (5) Foreign Exchange (GAIKOKU KAWASE KANJO):
 - (a) Foreign Exchange Sold (URIWATASHI GAIKOKU KAWASE).
 - (b) Due to Foreign Correspondents (GAIKOKU TATEN KARI).

¹ The Yokohama Specie Bank, in addition to the accounts listed under the heading handles:

1. *War Notes Redemption Funds* (GUMPYO HIKIKAE KI-YOKIN), representing the deposit of the Japanese Government to be used for exchanging the military notes.
2. *Public Loans Redemption and Coupon Payment Fund* (KOSAI GANRI SHIHARAI KI-YOKIN), representing the Japanese Government deposit to be used for the payment of interests and principals on public loans.
3. *War Notes Taken Over from Government* (HIKIUE GUMPYO), representing the military notes taken over from the government.
4. *Partial Payments of Bills* (TEGATA UCHIIRE KIN), representing the part payment on Bills for Collection, Interest Bills Receivable and Bills Discounted. This account is cancelled when the bill is fully paid. The Interest Bill Receivable represents the Bills secured by goods in foreign trade which bear interest from the day of discount until the day of payment. Refer to the discussion on foreign exchange.

² Besides the accounts listed under the heading, the Yokohama Specie Bank handles:

1. *Special Loans* (BETTO SHAKUYO KIN), representing money borrowed from the Japanese Government for special purpose; and
2. *Overdraft Account with Bankers* (TOZA KARIKOSHI), representing money borrowed from other banks on Current Account contract.

³ The Yokohama Specie Bank handles the ordinary borrowings and Call Money from other banks into the *Loans from Bankers* (SHAKUYO KIN) account.

- (6) Due to Domestic Correspondents (TATEN KARI).
- (7) Acceptances and Guarantees (SHIHARAI SHODAKU).
- (8) Miscellaneous Items (ZATSU KANJO):
 - (a) Unpaid Dividends (MIHARAI HAITOKIN).
 - (b) Unpaid Interests, etc. (MIHARAI RISOKU SONOTA).
 - (c) Unexpired Interests on Discount, etc. (MIKEIKA WARI-BI KIRYO SONOTA).
 - (d) Taxes on Deposits Interests (YOKIN RISHI SHOZEI).
- (9) Stock Holders' Accounts (KABUNUSHI KANJO):
 - (a) Capital Accounts (SHIHON KIN).
 - (b) Legal Reserves (HOTEI JUMBI KIN).
 - (c) X Reserves (NANI JUMBI KIN).
 - (d) X Accumulated Funds (NANI TSUMITATE KIN).
 - (e) X Funds (KIKIN).
 - (f) Profits for the Fiscal Year (TOKI RIEKI KIN):
 - 1. Amount forwarded from the previous fiscal year (ZENKI KURIKOSHI KIN).
 - 2. Transfer of X Accumulated Funds (NANI TSUMITATE KIN MOTOSHIIRE).

2. Profit and loss statement

a. Profit accounts

- (1) Interests on Loans (KASHITSUKE KIN RISOKU)
- (2) Interests on Securities (YUKASHOKEN RISOKU)
- (3) Miscellaneous Interests Received (UKEIRE ZATSU RISOKU)
- (4) Interests on Discounts (WARIBIKI RYO)
- (5) Dividends Received (KABUSHIKI HAITO KIN)
- (6) Commissions Received (UKEIRE TESURYO)
- (7) Profits from Foreign Exchange Transactions (GAIKOKU KAWASE BAIBAI EKI)
- (8) Profit from Sale of X (NANI BAIBAI EKI)
- (9) X Refunds (NANI SHOKAN KIN)
- (10) Incomes from the Loan of Securities (YUKA SHOKEN KASHITSUKE RYO)
- (11) Rent from Land and Building (TOCHI TATEMONO CHIN GASHI RYO)
- (12) Profits from the Collection of Bad Debts (SHOKYAKU SAIKEN TORITATE EKI)
- (13) Transfer of Unpaid Interests, etc. (MIHARAI RISOKU MOTOSHIIRE SONOTA)
- (14) Amount Forwarded from the Previous Fiscal Year (ZENKI KURIKOSHI KIN)
- (15) Transfer of Accumulated Funds (NANI TSUMITATE KIN MOTOSHIIRE)

b. Loss accounts

- (1) Interests on Deposits (YOKIN RISOKU).
- (2) Interests on Borrowed Funds (SHAKUYO KIN RISO-KU).
- (3) Miscellaneous Interests Paid (SHIHARAI ZATSURISO-KU).
- (4) Interests on Rediscount (SAI-WARIBIKI RYO).
- (5) Refund on Discount Interests (MOTOSHI WARIBIKI RYO).
- (6) Commissions Paid (SHIHARAI TESURYO).
- (7) Loss on Foreign Exchange Transactions (GAIKOKU KAWASE BAIBAI SON).
- (8) Loss on X Transactions (NANI BAIBAI SON).
- (9) Loss from Bad Debts (TODOKORI KASHIKIN SHOK-YAKU).
- (10) Loss from the Depreciation of Securities (YUKASHOKEN KAGAKU SHOKYAKU).
- (11) Loss from X Depreciation (NANI KAGAKU SHOK-YAKU).
- (12) Cost of Borrowing Securities (YUKASHOKEN KARIIRE RYO).
- (13) Rent on Land and Buildings (TOCHI TATEMONO CHIN GARI RYO).
- (14) Taxes (ZEIKIN).
- (15) Pension and Extra Grant to Employees (KOIN ONKYU OYOBI ICHIJY KYUYO KIN).
- (16) Salaries (KYUYO).
- (17) Allowances (TEATE).
- (18) Travelling Expenses (RYOHI).
- (19) Transfer of Unexpired Interests on Discount, etc. (MI-KEIKA WARIBIKIRYO SONOTA MOTOSHIIRE).
- (20) Profit for the Fiscal Year (TOKI RIEKI KIN).

C. FUNCTIONAL CLASSIFICATION OF A BANK

The Japanese banking laws contain no provision concerning the kinds of books kept by banks. Therefore, any legal questions concerning bank books are referred to by the provisions in commercial code as well as to general practices and customs. Japanese commercial laws provide that:

1. All business men are required to keep books systematically and legibly, showing the every day business transactions, indicating any matters which cause the fluctuation of their assets.¹

¹ Commercial Code, Article 32.

2. All business men are required to keep a record in books of the inventories of movable, immovable and other assets and the liabilities accounts at the opening of the business or at the time of the registration of the corporation and at a definite time of each year.¹

The above provisions clearly show that banks are required to keep an Entries and Day Register Book, an Inventory Book, and a Balance Book. In the actual practice of banking operations, however, there are many books other than these mentioned above which are kept by the departments in a bank. From the standpoint of accounting, all bank books are classified into two groups, namely, the main books (SHUYO BO) and the auxiliary books (HOJO BO). The former consists of Entries and Day Register Book, Ledger Book, and the Balance Book while the latter consists of all other books which are kept by each department.

In this connection, it is necessary to give a brief outline of the division of functions of ordinary banks in Japan to show the extent to which the many departments and bureaus are keeping different books. The functional classification² of a bank will naturally depend upon its size and the extent of business in which the bank is engaged. In general, the following departments and bureaus are found in an ordinary bank.

1. Management Department (TOKATSU BU).³

a. Accounting Bureau (KAIKEI KA).

b. Research Bureau (CHOSA KA).

(1) Credit Research Division (SHINYO CHOSA KAKARI).

(2) Economic Research Division (KEIZAI CHOSA KAKARI).

c. Examination Bureau (KENSA KA).

d. General Affairs Bureau (SHOMU KA).

(1) Documents Division (BUNSHO KAKARI).

(2) Supplies Division (YODO KAKARI).

(3) Stocks Division (KABUSHIKI KAKARI).

(4) Borrowing and Loaning of Securities Division (YUKA-SHOKEN TAISHAKU KAKARI).

2. Operating Department (EIGYO BU).

a. Operating Bureau (EIGYO KA).

(1) Deposit Division (YOKIN KAKARI).

(2) Loan Division (KASHITSUKE KAKARI).

¹ Commercial Code, Article 33.

² The banking operation of the Yokohama Specie Bank, given in Article 7 of its law which was promulgated by the Imperial Ordinance #29 of 7 July 1887 and later amended by law #65 in August, 1937 indicates that the bank is engaged in: (1) Foreign Drafts and Foreign Bills Secured by Goods; (2) Domestic Drafts and Bills Secured by Goods; (3) Loans; (4) Deposits and Safe Keepings; (5) Discount on Bills of Exchange, Promissory Notes, Securities and Collection Operations; and (6) Currency Exchanges. The Yokohama Specie Bank handled between 60 per cent to 80 per cent of Japan's total foreign trade financing in prewar times.

³ The Personnel Bureau is usually placed under the Management Department.

- (3) Exchange Division (KAWASE KAKARI).
 - (4) Collection Division (TORITATE KAKARI).
 - (5) Security Division (SHOKEN KAKARI).
 - (6) Mortgage and Safe Deposits Division (TAMPO-HIN OYO-BI HOGOAZUKARI KAKARI).
- b.* Receipt and Payment Bureau (SUITO KA).
- (1) Receiving Division (SHU-NO KAKARI).
 - (2) Paying Division (SHIHARAI KAKARI).
 - (3) Clearing Division (KOKAN KAKARI).

III. MANAGEMENT DEPARTMENT

The Management Department is generally divided into four bureaus: namely, the Accounting Bureau, the Research Bureau, the Examination Bureau, and the General Affairs Bureau.

A. ACCOUNTING BUREAU

The main books mentioned in the previous chapter are kept in the Account Bureau (KAIKEI KA or KEISAN KA). As it has been explained in the handling of *Dempyos*, the Accounting Bureau prepares Entries and Day Register Book (SHIWAKE NIKKI CHO) from the summary Dempyo Slips, records the debit and the credit amounts of each account into the corresponding account in the Ledger Book (MOTOCHO) and prepares the Balance Book (ZANDAKA CHO) from the balance of each ledger account.

1. Preparation of Entries and Day Register Book or Day Register Book (SHIWAKE NIKKI CHO or NIKKI CHO)

In the discussions on the classification of *dempyos* into debit and credit by the Accounting Bureau, it has been stated that the cash receipt *dempyos* which are printed in red and the debit transfer *dempyos* which are printed in brown are classified into debit side and the cash payment *dempyos* which are printed in indigo and the credit transfer *dempyos* which are printed in green are classified into credit side. It is also stated that the summary *dempyo* sheets are prepared for each account of the debit and credit *dempyos* and all the accounts in the debit and credit sides are arranged in order of the accounts in the Ledger Book. The Accounting Bureau then lists these accounts on the debit and the credit sides of the Entries and Day Register Book in the order of accounts in the Ledger Book, recording the total amount of transfer, cash and their totals of each account in the debit and credit side of the book. The debit total and the credit total of the transfer accounts will thus balance. The cash balance of the previous day is added to the total cash receipts of the day and from this sum the total cash payments for the day, that is, the total credit amount, is deducted to show the cash balance for the day. This cash balance is written in red ink below the total credit amount to balance off the book between the debit and the credit side.¹

¹ See item 6, appendix 3.

2. Preparation of Ledger Book

The Ledger (MOTOCHO)¹ is sometimes called All Accounts Ledger (SOKANJO MOTOCHO). From the foregoing discussions on the bank entry making and the preparation of the Entries and Day Register Book, it is apparent that the debit side of the Entries and Day Register Book represents cash and transfer receipts and the credit side represents cash and transfer payments. This is because all dempyos are made on the assumption that all transactions are cash transactions. Thus, the accounts shown on the debit dempyos, that is, the accounts shown on the cash receipt dempyos and the transfer receipt dempyos are in reality the credit accounts and the accounts shown on the credit dempyos are in reality the debit accounts.²

When it comes to recording the amount of each account on the Ledger from the Entries and Day Register Book, the debit amount of each account in the latter is credited to the respective account in the Ledger and vice versa, except the cash account. The recording of the cash account in the Ledger is done by transferring the total debit and total credit of all accounts, cash as well as the transfer amounts, from the Entries and Day Register Book to the respective sides of the cash account in the Ledger. The reason for doing this is to show the total amount of business done for the day in the cash account. After each account has been recorded in the Ledger, the Accounting Bureau calculates the balance of each account to be used for the preparation of the Balance Book.

3. Preparation of Balance Book

The Balance Book or Sheet (ZANDAKA CHO or ZANDAKA HYO) is sometimes called SOKANJO MOTOCHO ZANDAKA CHO, (Balance Book of all Ledger Accounts) NIKKEI HYO (Daily Account Sheet) and TAISHAKU TAISHO HYO (Register of Assets and Liabilities).³ The debit and the credit sides are usually divided into two columns: one for the total and the other for the balance. The total column represents the total amount of all debit and credit of a given account and the balance column represents the balance of the account. The balance sheet containing the total columns on both the debit and the credit sides is usually prepared at the end of each month and is called GEKKEI HYO (Monthly Account Sheet) in comparison to the NIKKEI HYO (Daily Account Sheet).

¹ See item 4, appendix 3.

² See Transfer Demyo.

³ See item 5, appendix 3.

B. RESEARCH BUREAU (CHOSA KA)

It is divided into the Credit Research Division and the Economic Research Division. The former deals with the investigation of credit standings of customers and the business practices of other banks which would be beneficial to the conduct of its own business and the latter deals with the research of general economic conditions which would help to guide the banking operations.

C. EXAMINATION BUREAU (KENSA KA)

Bank auditing can be classified under two main headings. One is the External Audits (GAIBU KANSA) and the other is the Internal Audits (NAIBU KANSA). The External Audits can also be divided into three different types: namely, the auditing by the Ministry of Finance, examination by the Clearing House and the auditing by the professional auditors. The internal audits are also divided into three different types: namely, auditing by the bank auditors, examination by the stock holders and the auditing by the examiner of the examination bureau of the Bank. The Examination Bureau examines the Bank's operations: that is, to see whether or not all bank transactions are properly recorded, whether or not the calculations of interest on deposits and loans are correct, and whether or not the policies of the head of each department and the manager of the bank are in accordance with the policies of the bank.

The bank examiners, therefore, will be required to equip themselves with a thorough knowledge of all the legal provisions concerning banks and bank operation, the articles of association, the records of resolutions of the stock holders and the various rules and regulations governing the actual conduct of bank operation. The rules and the regulations regarding the conduct of bank operation refer to the accounting rules, rules defining the functions of each department and other rules and regulations concerning the internal affairs of the bank.

After all the bank operations have been examined, the examiner in the Examination Bureau is required to submit a report to his superior on the results of his examination. This report is based on facts and submitted with other financial reports which the examiner has gone over. When the examiner finds certain matters for which he can not be responsible, he is required to supplement his report with the proper explanation. If he finds certain conditions which could be improved, he is also required to make recommendations. In general, the examiner's report contains statements concerning:

1. Whether all books are properly recorded and, if not, a statement of the specific cases where the examiner found mistakes.
2. Whether all bills, documents and the documentary evidences are properly kept and a statement of any evidence of carelessness on the part of the employees.
3. Any shortage or surplus in the bank cash balance and securities on hand.
4. Whether or not all expense items and other profit and loss accounts are properly handled.

Besides the above mentioned points, the examiner is also required to make a report on the economic and financial conditions in the locality where the bank is situated, an evaluation of the management policy of the bank, the character and the morale of the bank employees and the recreational facilities for the employees. The covering letter of the examiner's report shows the date, the address of the examiner, the title, the signature, and the seal of the examiner and the statement that "the accuracy of the financial statements accompanying herewith is recognized after the comparison and the examination of the same with the books and records."

D. GENERAL AFFAIRS BUREAU

The General Affairs Bureau (SHOMU KA) is divided into the Documents Division, the Supplies Division, the Stock Division, and the Loaning and Borrowing of Securities Division.

1. Documents Division (BUNSHO KAKARI)

This department handles matters relating to the preparations for the stock holders' meetings, amendments of the articles of association, bank personnel problems and handling and keeping of all bank communications and documents.

2. Supplies Division (YODO KAKARI)

This department handles the payment of all expense items and the keeping of bank properties. Some of the expense items consist of taxes (ZEIKIN), salaries and allowances (KYURYO TEATE), travelling expenses (RYOHI), repairs (SHUZEN), and other miscellaneous expenses (ZAPPI). This department is also responsible for preparing, at the end of every fiscal year, the expense budget for the coming fiscal year, and for keeping the expenditures on various items within their budget limit. When the expenditure on a certain item exceeds its budget limit, the manager's permission is required to pay out the excess amount. The auxiliary books kept in this division are: details of Current

Expense Book (KEIHI MEISAI CHO)¹, and the details of the Property Books, such as Details of Land and Buildings (TOCHI OYOBI TATEMONO MEISAI-CHO)², and the Details of Furniture (JUKI MEISAI-CHO).³

3. Stock Division (KABUSHIKI KAKARI)

This division handles affairs relating to stock transfer and dividend payment. The following auxiliary books are kept in this division:

- a. Register of Shareholders (KABUNUSHI MEIBO).⁴
- b. Register of Shareholders' share number book (KABUNUSHI MEIBO FUZOKU BANGO-CHO).⁵
- c. Register of Numbers of Share Certificates (KABUKEN BANGO CHO).
- d. Register of Shares on Call (KABUKEN HARAIKOMI KINYU-CHO).⁶
- e. Register of Transfer of Shares (KABUSHIKI MEIGI KAIKAE KINYU-CHO).⁷
- f. Details of Dividends (MAITO KIN MEISAI-CHO).⁸

4. Loaning and Borrowing of Securities Division (YUKA SHOKEN TAISHAKU KAKARI).

This division handles the loaning and borrowing of securities. The borrower and the lender agree to return the same kind and quantity of securities involved in the transaction. However, the securities returned to the lender do not necessarily have to have the same registered numbers as those of the securities borrowed originally.

The following books are kept in this department:

- a. Borrowed Security Book (KARIIRE YUKASHOKEN SEIRI CHO).
- b. Loaned Security Book (KASHITSUKE YUKASHOKEN SEIRI CHO).

¹ See item 7, appendix 3.

² See item 8, appendix 3.

³ See item 9, appendix 3.

⁴ See item 10, appendix 3.

⁵ See item 11, appendix 3.

⁶ See item 12, appendix 3.

⁷ See item 13, appendix 3.

⁸ See item 14, appendix 3.

IV. OPERATING DEPARTMENT — DEPOSIT DIVISION¹

As has been shown in the previous outline, the Operating Department is subdivided into the Operating Bureau and the Receipt and Payment Bureau. The Operating Bureau is further divided into five divisions: namely, the Deposit Division, the Loan Division, the Exchange Division, the Collection Division, and the Mortgage and Safe Deposits Division. The Receipt and Payment Division is also divided into the Receipt Division, the Payment Division and the Clearing Division. The following discussions on the explanation of accounts, books kept and the functions performed by each division will follow according to the above order.

A. FIXED DEPOSITS

The fixed deposits (TEIKI YOKIN) as a rule, are limited to deposits of 100. yen or more for over six months. In some cities in Japan, however, exceptions are found where the minimum is lowered to 50. yen and the length of the deposit period to three months.² The interest paid on this deposit is higher than other kinds of deposits and the same interest rate is applied regardless of the length of the deposit. No deposit is allowed to be withdrawn before its maturity date. Although it is the rule that the Fixed Deposit Certificate is transferable, clauses are usually inserted in the contract restricting such transferability. The certificate is often used by the depositor for obtaining loan from the bank which issued the certificate. When the depositor transfers the deposit certificate to a third party, the bank is to be informed of the transfer. The deposit certificate does not in itself have any value; that is, when a third party acquires the certificate without going through the process of formal transfer, the third party has no claim on the deposit.

When a bank makes a loan to the holder of a deposit certificate, it can cancel the loan against the deposit, providing the claims of the depositor against the bank and the claims of the bank against the depositor conform to the following conditions:

¹ The Deposit Division of the Yokohama Specie Bank, besides handling all of the deposits discussed in this chapter, handles the operations relating to the current deposit with the Bank of Japan, known as TOZA YOTAKU KIN, the loan from the Bank of Japan (NIHON GINKO KARIIRE KIN), the loan from other banks, such as call money and the special deposits with bankers (BETSUDAN YOTAKU KIN).

² The minimum period of fixed deposits in Yokohama Specie Bank is six months but there are cases where the deposit runs for one year. The interest calculation on the one-year fixed deposit, however, is usually based on a six-months' compounded method.

- a. Mutual claims must exist.
- b. Both claims should have the same purpose.
- c. Both claims should be within the period of payment.
- d. The nature of the obligations should be such that they could be cancelled.
- e. There must not be any provision which would prevent the cancellation of the two claims.

All applicants for the fixed deposits are required to submit to the bank the sample of the seal impression (INKAN YOSHI). The deposit is payable to any person who is designated by the depositor or to the heir of the depositor. When the depositor loses the deposit certificate, he is required to notify the bank immediately. If it is not found after 30 or 60 days, depending upon the custom of the bank, the depositor must submit a request for the reissuance of the certificate with the signature of two witnesses. When the depositor loses his seal, the impression of which he gave to the bank, he is required to notify the bank immediately, and a sample of the impression of the new seal must be submitted. When the depositor wishes to transfer the claim on the deposit to another person by changing the name of the depositor on the certificate, it must be reported to the bank on a proper request form.

There are three kinds of auxiliary books kept by the deposit bureau for this deposit: namely, Ledger of Fixed Deposits (TEIKI YOKIN MOTOCHO)¹, Register of Fixed Deposits (TEIKI YOKIN KINYU CHO)², and Fixed Deposits Maturity Book (TEIKI YOKIN KIJITSU-CHO).³

B. DEPOSITS AT NOTICE

The deposit at notice (TSUCHI YOKIN) has a provision whereby seven days of waiting is required from the day of deposit, except for banks in the Japanese colony. After the seven-days period, two days of advance notice is required before the deposit can be withdrawn. The amount of deposit is limited to 50,000. yen among the A grade banks in Tokyo, while this account varies according to the locality where the bank is situated. This limitation may be 30,000., 20,000., 10,000., 5,000., or 3,000. yen. Among the large city banks of Tokyo, Osaka, Kobe, and Nagoya, deposit certificates are issued to the depositors, while in many cases Pass Books are issued in place of the certificate. The holder of this deposit certificate seldom transfers it to others as it can be withdrawn within a short period of time, and as is

¹ See item 15, appendix 3.

² See item 16, appendix 3.

³ See item 17, appendix 3.

true in the case of the fixed deposit, the depositor is required to submit to the bank the sample of his seal impression and his signature which are used for identification purposes.

The Deposit Bureau keeps different kinds of books, depending upon whether the bank issues deposit certificates¹ or pass books against the deposits. When the bank issues a deposit certificate, the transaction is recorded in the Register of Deposit at Notice (TSUCHI YOKIN KINYU-CHO)², and the Ledger of Deposit at Notice (TSUCHI YOKIN MOTOCHO).³

When the bank receives an advance notice for the payment, the notice is recorded on the Advance Notice of Withdrawal of Deposit at Notice Book (TSUCHI YOKIN HIKIDASHI YOKOKU HIKAE CHO).⁴

C. SPECIAL CURRENT DEPOSITS

The Special Current Deposit (TOKUBETSU TOZA YOKIN)⁵ is a demand deposit which can be withdrawn at any time. The minimum amount of deposit is limited to 10. yen. A Pass Book (KAYOI CHO) is issued to the depositor instead of a deposit certificate. The minimum bank balance on which the interest is to be paid is generally 50. yen or 100. yen, depending upon the bank. The depositor is required to submit to the bank the sample of his seal impression and his signature which are used for identification purpose.

The Deposit Bureau keeps a Ledger of Special Current Accounts Book (TOKUBETSU TOZA YOKIN MOTOCHO)⁶, a Register of Special Current Accounts Book (TOKUBETSU TOZA YOKIN TSUKIKOMI KINYU-CHO)⁷ and Ledger Balance Book of Special Current Accounts (TOKUBETSU TOZA YOKIN MOTOCHO SASHIHIKI ZANDAKA-CHO).⁸ The Deposit Bureau also keeps a depositor's card file to facilitate the finding of a particular account in the Ledger Book. This card file is usually arranged in the English alphabetical order and contains the name of the depositor, the account number, the date on which the account was opened, the date of cancellation, and other particulars.⁹

D. CURRENT DEPOSITS

1. Explanation of current deposits and checks

The Current Account (TOZA YOKIN) is one of the demand

¹ Yokohama Specie Bank issues deposit certificates.

² See item 19, appendix 3.

³ See item 18, appendix 3.

⁴ See item 20, appendix 3.

⁵ This deposit is also known as KOGUCHI TOZA YOKIN.

⁶ See item 21, appendix 3.

⁷ See item 22, appendix 3.

⁸ See item 23, appendix 3.

⁹ See item 24, appendix 3.

deposits which is in some respects similar to the checking account in the United States. In Japan, the credit standing of a depositor of this account is thoroughly investigated in advance. A contract is signed between the depositor and the bank before the account becomes effective. Article 71 of the Japanese check law (KOGITTE HO) provides that a person who overdraws a check is subject to a fine of not more than 5,000. yen. In order to show the conditions of the current account contract, the following translation of the contract form is presented. This form of contract was approved as a basic rule by member banks of the Tokyo Clearing House and is being used, with slight modifications, by many banks in Japan.

The Current Account Regulation

Date:

To X Bank:

Upon the occasion of opening a current account with your bank, I hereby agree to all the points enumerated below:

- (1) Deposits can be made into the current account with cash and with other items which can be collected immediately, such as checks, bills and notes, interest coupons, postal money exchanges, dividend receipts, and other certificates.
- (2) No payment is to be made against the above collection items until they, in turn, have been collected.
- (3) When a collection item becomes dishonoured, this bank shall not be obliged to take legal steps to protect the claims on the item for the depositor unless it is so requested in advance. The dishonoured item shall be returned to the depositor and corresponding amount will be deducted from the deposit.
- (4) When the current account is to be withdrawn, the depositor is required to use the form of check established by this bank.
- (5) If this bank is made as the place of payment of a note or a bill by the depositor when he issues a promissory note or a bill of exchange or when he accepts the payment of a bill of exchange, such action is regarded by this bank as a payment request made by the depositor. When this bank is presented with the above note or bill after its maturity date, the amount is deducted from the account of the depositor and paid to the person from whom the bill or the note was presented.
- (6) When this bank guarantees the payment of a check drawn by the depositor, the amount is deducted from

the depositor's account as security against the guarantee.

- (7) When the balance of the current deposit account is insufficient to make a payment on a check or a bill, this bank does not make a part payment on the check or on the bill. When several checks are presented for payment at the same time and the balance is insufficient to make payments on all the checks, this bank uses its own discretion as to which checks may be paid first.
- (8) The impression of the seal is to be submitted to this bank. The seal on which the impression is made is the one which the depositor uses on checks and on bills. When an agent is to act for the depositor in issuing checks and bills, the name of the agent and the impression of his seal are to be submitted to the bank.
- (9) When checks or bills have been paid by this bank after the comparison of the impression of the seal with the one mentioned above, this bank is not liable for any damage which is caused by loss or theft of the seal. It is also not liable for any damage which is caused by the payment of a check or bill which has been forged or altered and where the forgery and the alteration are not easily detectible.
- (10) When a pass book, deposit slip, check book or seal is lost this bank should be notified immediately.
- (11) The bank pass book shall be presented to this bank more than once a month in order to be recorded and whenever the depositor finds a mistake this bank should be notified.
- (12) The method of interest calculation and the rate are to be based upon the rules of this bank and whenever any change is made this bank will notify the depositor.
- (13) The interest on the current account is to be calculated in June and in December of each year and the request for approvals are to be made.
- (14) In addition, the depositor of the current deposit will be subjected to the laws regarding the use of checks and the use of deposit slips. In case of damage caused by the violation of these laws and the above rules this bank shall not be made liable.
- (15) This current account shall be subject to cancellation at any time when it is deemed necessary by this bank.

When the account is cancelled, the unused checks will be returned to this bank.

Address

Name (Seal)

When the contract is signed and money is deposited into the current account, the bank in turn, will issue a check book, a deposit book and a pass book. The deposit book contains many deposit slips and the pass book is used to copy the bank ledger book of the depositor's account. The depositor is in turn required to give the bank a receipt for the check he received from the bank. A check¹ can be drawn in one of three forms: namely, a check payable to a certain person or to his order (SASHIZU SHIKI), payable to bearer (JISANNIN SHIKI) and payable to a definite person (KIMEI SHIKI). The check which is made out in KIMEI SHIKI can be changed to other forms by the proper endorsement. The drawer of a check, in order to prevent the check from being lost or stolen, may draw a parallel line on the face of the check, and between these lines he may or may not write the word "bank" or the payee's name. This type of check is known as Ordinary Lined Check (IPPAN SEMBIKI KOGITTE). In this case the drawee bank is obliged to pay the sum to the bank or to the person so designated. On the other hand, when the drawer writes the name of a specified bank between the parallel lines, the drawee bank is obliged to pay the sum to that specified bank. This type of check is known as Specially Lined Check (TOKUTEI SEMBIKI KOGITTE). Once a check has been made into a Specially Lined or Ordinary Lined Check, it can not be changed to an ordinary check even by the drawer.

2. Handling of current deposits

The Deposit Bureau keeps a Ledger of Current Accounts (TOZA KANJO MOTOCHO)², and a Balance Book of Current Accounts (TOZA KANJO MOTOCHO SASHIHIKI ZANDAKA-CHO).³ The Current Accounts Balance Book is prepared at the end of each day and the total balance is checked with the same in the Accounting Bureau. Besides the above two books, the Deposit Bureau also keeps the Evidence Book of Current Account Receipts (TOZA YOKIN SHOIN-CHO)⁴ to record the receipts which were not re-

¹ The Japanese check laws provide that the period of presentation for the payment of check is ten days from the date of issue and that although the drawer of a check may issue a stop payment notice, this order will not be effective during the ten-days period if the paying bank already had paid the check. However, if the check is not paid at the time when the bank received the stop payment notice from the drawer, the bank can refuse the payment on the check even if it is presented before the expiration of the ten-days period. When a check is presented for payment after the expiration of the ten-days period from the date of issue, the bank may still pay the check providing that there has been no stop payment notice on it from the drawer.

² See item 25, appendix 3.

³ See item 26, appendix 3.

⁴ See item 27, appendix 3.

ceived directly from the customer. When the bank guarantees the payment of a check for the customer, the transaction is recorded on the Register of Check Payment Guarantee (SHIHARAI HOSHO KOGITTE KINYU-CHO)¹, and the amount guaranteed is deducted from the customer's account. When the interest on the current account has been calculated, it is added to the balance of the account and a request for approval by the customer is sent to the customer by the bank. The current account can be cancelled by the initiative of either party, and when it is cancelled, the depositor is required to send a check to the bank covering the interest and principal of the account with the receipt for the total amount. If the depositor dies before the cancellation of the account, the account will automatically be cancelled, and the balance is transferred to the Special Deposits Account (BETSUDAN YOKIN) and is later paid to the heir of the depositor. In such a case, the heir is required to submit to the bank with certificate showing that he is the legal heir. When the depositor changes the seal which he used on his checks, he is required to notify the bank of the change. He is also required to notify the bank of the loss of his bank book.

E. MISCELLANEOUS DEPOSITS

The deposits which do not belong to any of the above mentioned groups are classed into miscellaneous deposits (ZATSUYOKIN). There are two kinds of deposits in this class: namely, the Special Deposits Account (BETSUDAN YOKIN) and the Deposit Certificate Account (YOKIN TEGATA KANJO).

1. Special deposits account (BETSUDAN YOKIN KANJO)

No deposit certificate is issued against this deposit, while in some cases deposit receipts are issued. Generally this deposit bears no interest nor does it have any definite agreed period of deposit. There are banks, however, which pay interest on this deposit and in such cases the interest rate on the current account is usually applied on this deposit. The items which usually enter into this deposit are:

a. The payment of subscriptions on stocks belonging to other corporations, usually handled temporarily by this account.

b. Guarantee funds on secured loans on bills (TEGATA UCHI-IRE KIN).

c. The balance of a deceased depositor awaiting transfer to the heir.

¹ See item 28, appendix 3.

d. The balance of current accounts which have been cancelled and awaiting payment to customer.

e. Moneys collected from interest coupons and the dividend payments, etc., are usually kept in this account when the customer has no other deposit account with the bank.

The Deposit Bureau keeps the Register Book of Special Deposit Accounts (BETSUDAN YOKIN KINYU CHO)¹, to record all the above types of deposits.

2. Deposit certificate accounts (YOKIN TEGATA)

The Deposit Certificate Account represents the certificate issued to a customer against the deposit. This certificate is a negotiable instrument which business men often use for payment in business transactions instead of cash. In recent years, however, Japanese banks have seldom issued deposit certificates. Instead, they issue self-addressed checks which are equally as good as deposit certificates. The Deposit Bureau keeps the Register of Self Addressed Checks (JIKO-ATE KOGITTE KINYU-CHO).²

¹ See item 29, appendix 3.

² See item 30, appendix 3.

V. OPERATING DEPARTMENT — LOAN DIVISION (DISCOUNTS)

The Loan Division (KASHITSUKE KAKARI) performs one of the most important functions in the Operating Bureau. It deals with making several different types of loans from the funds received by the Deposit Division. As it has been said in the previous discussion on the name of bank accounts, bank loans are divided into two main headings: namely, the Bills Discounted (WARIBIKI TEGATA) and Loans (KASHITSUKE KIN). The bills discounted are further divided into three types: namely, the Commercial Bills Discounted (SHOGYO TEGATA WARIBIKI), the discount of Bills Secured by Goods (NIGAWASE TEGATA) and the discount of Bank Acceptance Bills (GINKO HIKIUKE TEGATA). The loans are also divided into the Loans on Bills (TEGATA KASHITSUKE), the Loans on Deeds (SHOSHO KASHITSUKE) and the Overdraft (TOZA KASHIKOSHI). The discussions on these loans will be followed in the above order.

A. BILLS DISCOUNTED

1. Commercial bills discounted

a. Kinds of commercial bills. The “commercial bills” are bills derived from commercial transactions between business men. A manufacturer may wish to finance the cost of raw materials during the period of manufacturing and selling the goods to a wholesaler, and a retailer may wish to finance the purchasing price of goods from a wholesaler during the period before the goods are actually sold. Behind each commercial bill, therefore, there is a shift of merchandise from one business man to another and when the merchandise in transit is sold the commercial bill is theoretically liquidated. There are two types of bills (TEGATA) in use in Japan: namely, the exchange bill (KAWASE TEGATA) and the promissory note (YAKUSOKU TEGATA). The exchange bill can be defined as a bill drawn by a person addressed to another requesting him to pay a definite sum of money to a third party at a certain time and place. The promissory note, on the other hand, is a promise made by a drawer to pay a definite sum of money to the drawee at a specified time and place. Article 1 of the Japanese laws on bills provides that the bill of exchange should contain:

- (1) A written indication that it is a bill of exchange.
- (2) A brief statement requesting payment of a definite sum of money.
- (3) The name of a person who is to pay the sum.
- (4) Indication of the maturity date.
- (5) Indication of a locality where the sum is to be paid.
- (6) Name of the payee or the name of the person who would designate the payee.
- (7) Indications of the date and the place of the bill issued.
- (8) The signature and the seal of the drawer of the bill.

When the amount of a bill is written in Japanese (in Chinese ideographs) as well as in Roman numerals and the two amounts are different, the amount written in Japanese is to be regarded as the true amount of the bill.¹ On the other hand, when two different amounts are shown either all in Japanese or all in Roman numerals, the smaller amount is to be regarded as the true amount of the bill.² The maturity date of a bill is to be shown³ either payable at sight (ICHIRAM BARAI), payable after a definite number of days after sight (ICHIRAM-GO TEIKI BARAI), payable after a definite number of days from the date shown on the bill (HITSUKE-GO TEIKI BARAI) or on a definite date (KAKUTEI-BI BARAI). When a bill contains no maturity date, the bill is to be regarded payable at sight.⁴

As to the indication of the locality where a bill is to be paid, when a bill is to be paid in Tokyo city or in Osaka city, it should be stated in the bill as such. When there is no such indication in the bill, it is regarded to be payable at the locality which is indicated beside the name of the payer.⁵

The place of payment of a bill is optional and whether the place of payment is indicated on the bill or not, it will not affect the validity of the bill. When there is no such indication on the bill, it is to be regarded payable at the address of the payer. When a bill has no indication as to the place of issue, the name of the place written beside the drawer's name is to be regarded as the place of issue. Bills may be endorsed either payable to a specified person (KIMEI SHIKI) or in blank endorsement, without designating the endorsee with the endorser's name and his seal under it. The latter method of endorsement is known as HAKUCHI SHIKI and the holder of the bill, in this case, is regarded as the endorsee.⁶ Endorsement may be made either on the reverse side of the bill

¹ and ² Japanese Laws on Bills, #20, 15 July 1932, Effective 1 January 1934, Article 6. These Laws are also applied to checks.

³ Japanese Laws on Bills, #20, Article 33.

⁴ Japanese Laws on Bills, #20, Article 2.

⁵ Japanese Laws on Bills, #20, Article 2, paragraph 3.

⁶ Japanese Laws on Bills, #20, Article 16.

or on an allonge (FUSEN) on the bill.¹ When a payer pays the bill, the receiver will be asked to sign his name with seal on the bill and it will be given to the payer. Even when the payer has accepted to pay the full amount of a bill, the holder of the bill will be obliged to accept a part payment. In such a case, the amount and date on which the payment is made is shown on the bill and an extra receipt containing all the details concerning the bill, the amount received and date, is to be given to the payer. The holder of the bill will have claim only on the amount of unpaid balance.

As to the form of a promissory note, Article 75 of the Japanese law of bills provides that a promissory note should contain:

- (1) A written indication that it is a promissory note.
- (2) A statement of a promise that a definite sum is to be paid.
- (3) An indication of the maturity date.
- (4) An indication of a locality where the money is to be paid.
- (5) The name of the payee or the name of the person who would designate the payee.
- (6) Indication of the date and the place of the bill issued.
- (7) The signature and the seal of the drawer of the bill.

Article 76 of the same law provides when a promissory note has no provision for the maturity date, it is to be regarded as payable at sight; and when there is no indication as to the place of issue of the bill, the drawer's address is to be regarded as such. It also provides that when there is no indication of the locality of payment, the address of the drawer is to be regarded as such. According to the place of payment, the commercial bill can also be divided into the Bills Discounted Payable Here (TOSHO WARIBIKI TEGATA) and the Bills Discounted Payable Elsewhere (TASHO WARIBIKI TEGATA). The former signifies that the bills are payable at the city where the discounting bank is situated and the latter indicates that the bills discounted are payable in a different city. The bills payable elsewhere are sent to the corresponding banks for collection. In such a case the discounting bank charges an extra commission to cover the mailing expenses. It is important to mention at this point that a discounting bank must exercise caution to see whether the bills presented for discount are really genuine commercial bills or accommodation bills (YUZU TEGATA).

b. Accommodation bills (YUZU TEGATA). This is a bill designed to strengthen the credit standing of a party in the bill by another party so that the first party will be able to obtain a loan from a bank or from another financial institution. Consequently, there is no actual commercial transaction involved when the bill is

¹ Japanese Laws on Bills, #20, Article 13, paragraph 1.

issued and therefore, the credit risks on this type of bill is regarded much greater than a commercial bill. A bank usually does not grant discount privileges on this type of bill except when the parties involved in the Accommodation Bill have exceptionally high credit standings and if the bank approves of such a financing method. Even in this case, however, the loans are made not in the discount form, but in loan on bill form (TEGATA KASHITSUKE). There are different names for this type of Accommodation Bill: one is SORA TEGATA or Empty Bill, and the other is KAKIAI TEGATA or Mutual Accommodation Bill. The SORA TEGATA or the Empty Bill is the kind of bill described above, while the KAKIAI TEGATA or the Mutual Accommodation Bills are bills drawn by two persons against each other. In the latter case, A draws a promissory note in favor of B, and B draws a promissory note in favor of A. A and B then endorse each other's bill and take these to their banks and request loans. The difference between SORA TEGATA and the KAKIAI TEGATA is that in the former case only one man borrows the money, while in the latter case, two men are involved and borrow money from two different banks. From the standpoint of the discounting bank, therefore, the risks involved in the KAKIAI TEGATA are much greater than the SORA TEGATA or Empty Bills, and it may be assumed that Japanese banks are unwilling to make a loan on this type of bill.

c. Handling of discount transactions. When a customer applies for a bank loan, regardless of the type of loan, or whether the loan is to be secured or not, the bank requests the customer to submit a business agreement (TORIHIKI YAKUJO SHO)¹ before the loan is granted. When bills are presented for discount by the customer, the head of the Loan Division examines the bills to see whether they are valid from the legal standpoint. After the examination of the bills, the head of the Loan Division will then proceed to study whether the bills are acceptable for discount and his findings are recorded on the Consultation Card (KYOGEI HYO KADO). The cards together with the bills are then sent to the manager's desk for decision. When the bills are accepted, the customer is asked to endorse each bill with a clause to the effect that:

“The obligation for the preparation of repudiation of payment certificate on this bill is exempted (KYOZETSU SHOSHO SAKUSEI NO GIMU-O MENJO SU)” or “Redemption Without Expense (MUHIYO SHOKAN).”

If either one of the above clauses is absent, the bank is obliged to prepare the certificate within two business days after the date of the refusal of payment. Otherwise, the bank loses the legal claim

¹ See item 31, appendix 3.

on the bill, although the bank usually collects the sum from the applicant of the discount. When any one of the above provisions is absent from the endorsement, the bank has to prepare the certificate on an attested form.¹ If the Certificate of the Refusal for Acceptance has already been prepared, the Repudiation of Payment Certificate is unnecessary. The Repudiation of Payment Certificate is a proof to all other parties concerned in the bill that the bill had been presented to the payer for payment on the day and the place designated in the bill in accordance with the provisions of the law on bills, and that the payer had refused the payment of the sum.

When the repudiation of payment certificate is prepared, the bank, then, is required to notify either one or all of the endorsers, and the drawer of the bill, within four business days after the day on which the certificate was prepared. The notification form used when the Repudiation of Payment Certificate is prepared and not prepared is slightly different. The insertion of any one of the exemption clauses in the endorsement is important, especially when the bill is payable at a distant place when the bank has to send the bill for collection. It is also important that the bank has a sample of the impression of the customer's seal which the customer uses on checks and bills.

When all bills are properly endorsed by the customer, the Loan Division then calculates the discount interest on each bill, classifies the bills into Payable Here (TOSHO WARIBIKI) and Payable Elsewhere (TASHO WARIBIKI), and records them on the Register of Bills Discounted Payable Elsewhere (TASHO WARIBIKI TEGATA KINYU CHO)², and the Bills Discounted Payable Here (TOSHO WARIBIKI TEGATA KINYU CHO).³ All bills are numbered in these books as well as on the bills. These bills are again recorded on the Ledger of Applicants of Bills Discounted (WARIBIKI TEGATA IRAININ MOTO CHO)⁴ and the Ledger of Payer of Bills Discounted (WARIBIKI TEGATA SHIHARAININ MOTOCHO).⁵ These two ledgers can be combined into one book for the purpose of simplification. This combined book is called the Ledger of Commercial Bills (SHOGYO TEGATA MOTOCHO)⁶ or the Ledger of Discounted Bills (WARIBIKI TEGATA MOTOCHO). These discounted bills are also recorded in the Due Date Books (KIJITSU-CHO), one book for the bills payable here and another for the bills payable elsewhere. After all the record-

¹ The Laws on Bills, Article 44, paragraph 1.

² See item 32, appendix 3.

³ See item 33, appendix 3.

⁴ See item 34, appendix 3.

⁵ See item 35, appendix 3.

⁶ See item 36, appendix 3.

ings, the bills payable elsewhere are sent to the corresponding banks for collection¹ and the bills payable at home are kept in order of their maturity date at the manager's desk.

As to the dempyo making, when a bank makes a loan of 5,000. yen to A and it is deposited into A's current account after the deduction of 50. yen for discount interest, the Loan Division will make the following dempyos.²

TRANSFER DEMPYO

<i>Debit</i>		<i>Credit</i>	
A's Current Account	4,950. yen	Bills Discounted	
Discount Interest	50. yen	for A	5,000. yen
Total		Total	
5,000.		5,000.	

At maturity, when the bills are paid by the payer with B's check, assuming that B has a current account with the bank, the Loan Division will make the following entry:

TRANSFER DEMPYO

<i>Debit</i>		<i>Credit</i>	
Bills Discounted for A	5,000. yen	B's Current Account	5,000. yen

On the other hand, let us assume that the bills discounted were payable elsewhere and the bank sent them for collection to the Yasuda Bank. At maturity, these bills were presented to the payer by the Yasuda Bank and all were paid. The Yasuda Bank will then send the collection notice to the discounted bank. The discounted bank then will make the following entry to record the transaction:

TRANSFER DEMPYO

<i>Debit</i>		<i>Credit</i>	
Bills Discounted for A	5,000. yen	Yasuda Bank	5,000. yen

In the above case, if the Yasuda Bank charged 1.50 yen for collection fees, the transfer dempyo will be made as follows:

TRANSFER DEMPYO

<i>Debit</i>		<i>Credit</i>	
Bills Discounted for A	5,000. yen	Yasuda Bank	4,998.50 yen
		Commission	1.50 yen
Total		Total	
5,000.		5,000.	

Article 3 of the Decree on the Application of Funds of Banks, etc. (GINKO NADO SHIKIN UNYO REI) of 19 October 1940

¹ Refer to the discussion on Bills for Collection Payable Elsewhere.
² Refer to the explanation of dempyos.

provides for the control of discounts on commercial bills to be used by the borrower for working capital. The Enforcement Order of the law specifies that a bank can loan to its customers up to the amount of a discount loan made during the previous fiscal half year. If the discount to any individual exceeds the amount of loan made in the previous six-months period, permission is required from the Ministry of Finance. To a new customer or a customer whose loan did not exceed 50,000. yen in the previous fiscal half year, the bank can loan him up to 50,000. yen. However, if a loan is payable within ten days or if it is made with the understanding of the government, the above limitations are not applicable.

2. Bills secured by goods (NIGAWASE TEGATA)¹

a. Bills secured by goods and cargo exchange certificate. These are bills drawn by a seller of goods requesting a buyer to pay a definite sum on a certain date at a certain place. These bills are secured by the merchandise in transit. The merchandise is not sent directly to the buyer, but to the transport company, which delivers the goods in exchange for the Cargo Exchange Certificate (KAMOTSU HIKIKAE SHO) or the Bill of Lading (FUNANI SHOKEN). The purchaser of the goods will have to pay the bill (TEGATA) before he can obtain the cargo exchange certificate or the bill of lading from a bank who collects the bill. In some cases, however, the Cargo Exchange Certificate or the Bill of Lading is subject to be given to the buyer when the buyer accepts the payment of the bill at the collecting bank. The cost of insurance and the interest during the period of the goods in transit are usually added to the selling price of the goods when the seller discounts the bill. The discounting bank, on the other hand, establishes a SHIKKEN² on the goods in transit and grants the discount either on the full amount of the bill or on 70 percent or 80 percent of the amount of the bill. This is to insure against any possible losses which may be caused if the bill is later dishonored. Assuming that the bank made a loan on 70 percent of the amount of the bill, the balance of 30 percent is kept in the special deposits account as a guarantee fund. This fund is known as ATAMA KIN or Head Money, and it is returned to the customer when the bill is collected at maturity.

Bills Secured by Goods are not usually accepted by the payer of the bill when the seller presents the bill for discount. The discounting bank, therefore, has no legal claim on the payer until he accepts the bill. The claims which the discounting bank has when the bill

¹ The Yokohama Specie Bank handles Bills Secured by Goods (Domestic) as Commercial Bills Discounted (SHOGYO TEGATA WARIBIKI).

² Prior right of a mortgagee over other creditors in cases of bankruptcy, refer to the discussion in chapter VI.

is discounted, are claims on the applicant, the Cargo Exchange Certificate, or the Bill of Lading. Accordingly, it is important for the discounting bank to exercise caution in regard to the types of merchandise in transit and the reputation of the transport company which issued the certificate or the bill of lading. When the merchandise in transit is perishable or subject to violent price fluctuations, the discounting bank will hesitate to extend credit. It is also important for the discounting bank to see that the goods in transit are properly insured. As a safety measure, the discounting bank requests the applicant to submit a Collateral Agreement to the bank and to endorse the Cargo Exchange Certificate or the Bill of Lading, thereby transferring all claims on the goods to the discounting bank.

Another important point to be mentioned regarding the Cargo Exchange Certificate or the Bill of Lading is the prevailing practice among the Japanese business men and the Japanese transport companies. As a rule, the cargo in question is not given to the buyer by the transport company without obtaining the Cargo Exchange Certificate or the Bill of Lading. There is a custom known as SORA WATASHI or Empty Transfer, however, which means that the cargo is given to the buyer by the transport company without exchange of the Cargo Exchange Certificate or the Bill of Lading. For example, if a perishable cargo is kept in the warehouse of the transport company, due to the delay in arrival of the Cargo Exchange Certificate or the Bill of Lading, the transport company will deliver the goods to the purchaser providing that the payment of the bill has been guaranteed, thereby causing no financial loss to the parties concerned. If the transfer of cargo to the purchaser is made without this kind of justifiable reason it is usually based upon dishonest motives. The consequences of such a case would be as follows:

1. Since there is no cargo on which the discounting bank can exercise its claim, it will result in a loss to the bank unless the credit standing of the applicant is sound and he pays the bill.
2. The person who applied for the discount will be liable to the bank for the loss.
3. The holder of the Cargo Exchange Certificate or the Bill of Lading has the right to claim the cargo from the transport company, but since there is no cargo, the holder of the certificate may have to suffer the loss.
4. The transport company, which transferred the cargo to the buyer will be subject to a damage suit by the shipper

of the cargo for unlawful interference with the property rights of the shipper.

b. Handling of bills secured by goods. As has been said in a previous paragraph, there are cases when the Cargo Exchange Certificate or the Bill of Lading is given to the buyer when he accepts the payment on the bill. This is known as HIKIUIKE WATASHI or Document for Acceptance. From the standpoint of the discounting bank, however, this type of bill is not preferred over the delivery upon the payment of the Cargo Exchange Certificate or the Bill of Lading. The Loan Division keeps the Register of Bills Secured by Goods Discounted (NITSUKE KAWASE TEGATA KINYU-CHO)¹ and the Ledger of Bills Secured by Goods Discounted (NITSUKE KAWASE TEGATA MOTOCHO). The Due Date Book of the Bills Secured by Goods Discounted (NITSUKE KAWASE TEGATA KIJITSU-CHO)² is also kept to record the bills in order of the maturity dates. The bills thus discounted are sent to the corresponding banks for collection.³

3. Bank acceptance bills (GINKO HIKIUIKE TEGATA)

There are cases where the seller of merchandise does not wish to take the financial risk of shipping his merchandise to an unknown buyer. In such case the seller may request the buyer to have the buyer's bank accept the bill, guarantee its payment, before the seller presents the bill to his bank for discount. The discounting bank, therefore, is assured of the safety of the bill unless the credit standing of the buyer's bank is doubtful. The discounting bank handles this type of bill in the same manner as the ordinary commercial bills discounted.

¹ See item 37, appendix 3.

² See item 38, appendix 3.

³ Refer to the discussion on Bills for Collection Payable Elsewhere, chapter VIII.

VI. OPERATING DEPARTMENT — LOAN DIVISION CONTINUED (OVERDRAFT AND LOANS)

B. OVERDRAFT

1. Explanation of overdraft (TOZA KASHIKOSHI)¹

Overdraft is a form of loan arising from the overdrawing of a checking account by a customer after an agreement has been signed with the bank. Although the operation of the overdraft is handled by the Deposit Bureau, it is one of the several forms of loans made by Japanese banks. The overdraft loan is different in many respects from other types of loans, since the customer can overdraw the amount at any time when the need arises, and it can be repaid in part or in full at any time by depositing money with the bank. From the standpoint of the bank, it may be said that this type of loan is not as profitable as other types since the period of the overdraft loan usually runs from six months to a year, compared with the usual period prevailing in other types of loans which run from thirty days to sixty days. Furthermore, in the case of the overdraft, the loaning bank is not in a position to predict when the customer will overdraw his account and for how long. This uncertainty compels the bank to maintain a sufficient fund to meet this contingency. This condition naturally raises the problem of maintaining idle funds which otherwise could be utilized profitably. For these reasons, banks usually charge a slightly higher interest rate for the overdraft loan than for other types of loans.

There are several types of overdraft loans: namely, Secured Overdraft (TAMPO-TSUKI TOZA KASHIKOSHI), Unsecured Overdraft (MUTAMPO TOZA KASHIKOSHI), Guaranteed Overdraft (HOSHO-TSUKI TOZA KASHIKOSHI), Overdraft for a Definite Period of Time (KIGEN-TSUKI TOZA KASHIKOSHI), Overdraft for an Indefinite Period of Time (MUKIGEN TOZA KASHIKOSHI), and Temporary Overdraft (ICHIJI KASHIKOSHI). Explanation of these overdrafts follows according to the above order.

2. Types of overdrafts

a. Secured Overdraft (TAMPO-TSUKI TOZA KASHIKOSHI).²

¹ The so-called *Exchange Overdraft* (KAWASE TOZA KASHI) used by the Yokohama Specie Bank is sometimes called *Export Advance* (KAWASE MAEGASHI) by the same, and handled in *Advance for Export Bills Account* (YUSHUTSU KAWASE MAEGASHI KANJO). It is similar to the overdraft, but the money advanced to the exporter in the exchange overdraft is used for the purchase of raw materials to be manufactured for export. The advance is repaid when the bank purchases the export bill from the exporter.

² See item 35, appendix 3.

When a customer deposits collateral with the bank for the overdraft contract it is called Secured Overdraft. This collateral is used as a guarantee against the payment of present and future overdraft balances. As it has been said in a previous paragraph, the customer need not have an overdraft balance when he signs the contract. The security then pledged is the security against a future overdraft balance and this type of contract is known as NETEITO KEIYAKU or Overdraft Collateral Contract which differs from the ordinary mortgage contract.

The so-called "SHIKKEN" is a Japanese legal term, which means that the preferred right of a mortgagee over and above the claims of other creditors on the mortgage when the mortgagor is bankrupt, will be nullified in ordinary mortgage or collateral contract when the mortgagor pays off the debt to the mortgagee. In the case of Overdraft Collateral Contract or NETEITO KEIYAKU, however, the nullification rule of SHIKKEN is not applied since the contract is based upon present as well as future overdraft obligations. Consequently, as soon as the overdraft collateral contract or the NETEITO KEIYAKU is signed, the contract itself establishes the mortgagee's SHIKKEN over the mortgage whether the customer has an overdraft balance or not. The Japanese Supreme Court as well as all Japanese legal experts recognize the existence of SHIKKEN as soon as the overdraft collateral contract is signed between the customer and the bank, but there seems to be some diversity of opinion among the legal experts as to when SHIKKEN becomes effective. Some experts believe the bank's SHIKKEN over the collateral takes effect as soon as the contract is signed, while others believe that although the bank has SHIKKEN over the collateral when the contract is signed, it does not become effective until the customer actually creates the overdraft balance.

When a customer pledges security to the bank in the overdraft collateral contract, a certificate of Collateral Deposit (TAMPO HIN SASHIIRE SHO)¹ is signed with the customer's seal and submitted to the bank with the collateral. Japanese banks seldom, if ever, accept a real estate mortgage for overdraft security. The securities generally accepted for this purpose are: Japanese national or municipal bonds, corporate bonds and stocks, fixed deposit certificates, etc. When the collateral is a fixed deposit certificate of the overdraft borrower, the certificate of collateral deposit form will differ from the ordinary form. In this case the certificate of collateral deposit will contain information regarding the number of the fixed deposit certificate, the name of the issuing bank, the

¹ See item 40, appendix 3.

amount, the certificate number, the date of issue, the maturity date, the name of the depositor and the statement that:

“Upon the occasion of being granted the overdraft loan by your bank . . . date, I hereby deposit the above fixed deposit certificate as collateral against all my debts. When I delay the payment of said obligation, you will be authorized to deduct all my debts from the principal and the interest of the above fixed deposit, regardless of the due date of the deposit and without any notice to me. When there is any shortage which is necessary to cover my debts, I will pay the same.”

When the fixed deposit certificate deposited as collateral is not made out in the name of the overdraft borrower, the certificate of collateral form also differs slightly from the one mentioned above. When a bank receives a fixed deposit certificate as a collateral issued by a different bank, the receiving bank has to notify the issue bank that a SHIKKEN¹ has been established on the certificate.

b. *Unsecured overdraft* (MUTAMPO TOZA KASHIKOSHI).² Japanese banks generally do not extend an overdraft loan without security, unless the borrower is a well-known, large corporation whose credit standing is indisputable. The unsecured overdraft loan is usually granted for a short period of time as it is entirely based on the good reputation of the borrower.

c. *Guaranteed overdraft* (HOSHO TSUKI TOZA KASHIKOSHI). The guaranteed overdraft is used in a case where the extension of overdraft credit is based upon the co-signature of a third person who guarantees the bank for payment of the overdraft balance in case the customer fails to do so. This type of overdraft is generally regarded as undesirable.

d. *Overdraft contract for a definite period* (KIGEN-TSUKI KASHIKOSHI KEIYAKU). An overdraft credit for a definite period of time is called KIGEN-TSUKI TOZA KASHIKOSHI. Making the overdraft contract for a definite period of time has an advantage as well as a disadvantage from the standpoint of a bank. If and when the overdraft contract is made for a definite period of time and is secured by collateral, the bank will lose claim on the collateral when the fixed period ends and the contract expires, regardless of whether the customer paid all the overdraft balance or not. If the customer refuses to pay the overdraft balance after the expiration of the contract, the bank then will have to go through the trouble of taking proper legal steps to collect the overdraft balance from the customer. To avoid this situation, it is the common practice of Japanese banks to make the secured overdraft contracts for an indefinite period of time and the unsecured overdraft contracts for a definite period of time.

¹ Refer to the discussion on Secured Overdraft.

² See item 41, appendix 3.

e. Overdraft contract for an indefinite period (MUKIGEN KASHIKOSHI KEIYAKU). When an overdraft contract is made for an indefinite period of time, the contracting bank usually inserts a clause thereby enabling the bank to cancel the contract at any time if it so desires.

f. Temporary overdraft (ICHIJI KASHIKOSHI). This type of overdraft is designed to meet the temporary needs of customers for a short-term loan of one or two days or a week. The Temporary Overdraft may arise from the overdrawing of a certain amount beyond the maximum amount of overdraft contracted for, or the overdrawing of the Current Account of a customer who has no overdraft contract with the bank. The Temporary Overdraft is generally not accompanied by a contract between the bank and the customer. The bank usually grants the Temporary Overdraft loan on the security of other types of deposits which the customer has with the bank. In such a case, the customer is requested to submit an application for the Temporary Overdraft, which gives the bank an evidence of claim and enables it to cancel the loan against the deposit if necessary. The Temporary Overdraft can also be secured. When a bank makes payment on a deposit made with checks or bills payable by other banks in the same city, it is also a Temporary Overdraft. In such a case, the checks or the bills have to pass through the Clearing House for collection, and the actual collection does not take place until a certain period of time elapses. When the payer of such checks or bills has a high credit standing and no credit risk is involved, the bank grants the Temporary Overdraft loan without any overdraft contract, but as a general rule many Japanese banks do not like to use this type of Temporary Overdraft loan.

The Deposit Bureau keeps a Register of Collateral Security (TAMPO HIN KINYU CHO)¹ and a Ledger of Overdraft Contract (TOZA KASHIKOSHI KEIYAKU GEMBO)².

The Decree on the Application of Funds of Banks, etc. (GINKO NADO SHIKIN UNYO REI) of 19 October 1940 and its Enforcement Order contain provisions for the control of Overdraft Loans. The amount of overdraft loans that can be made by banks to each customer is limited to 30,000. yen.

C. LOANS ON DEEDS

1. Definition of loans on deeds (SHOSHO KASHITSUKE)

A loan on deeds is a loan made on a certificate of indebtedness or an I.O.U., and it is to be distinguished from a loan made on a

¹ See item 42, appendix 3.

² See item 43, appendix 3.

bill (TEGATA). It is a long-term finance loan as compared with a short-term business loan on commercial paper. In most cases it is secured by a deed on real estate property. In small localities where no sizable business activities prevail, the local banks may make this type of loan to utilize their surplus funds. Large city commercial banks, however, do not extend this type of long-term credit as a general rule. When such an account appears on the balance sheets of commercial banks in large cities, it usually represents loans in the process of liquidation on installment payment plans. When loans on bills or overdraft loans become frozen or are turned into bad debts, they are usually transferred into this account, after agreement between the borrower and the bank. The borrower usually submits an additional mortgage, and the bank allows the borrower to pay off the debts on an installment basis. In such a case, the borrower is asked to submit a certificate of indebtedness and the bank establishes SHIKKEN on the mortgage.

2. Certificate of indebtedness

The certificate of indebtedness usually contains a provision regarding the maturity of the loan. If there is no such provision, the loan must be paid upon request of the lender.¹ In this case, however, the lender may permit the borrower reasonable time to prepare the payment. The borrower, on the other hand, can repay the loan at any time.² As a rule, the interest on the loan is paid when the installment payment is due or at the end of each fiscal year of the bank. However, the lending bank can request the borrower to pay the interest when the contract is signed or when the loan is made. If the borrower fails to fulfill his obligations as to the payment of the interest or the principal, the lender is entitled to bring a suit against the borrower.³ The rate of interest, in this case, should be based on the legal rate. However, when there is an agreement between the parties on the rate of interest to be used on such an occasion, and that interest rate is higher than the legal rate, the lender is entitled to use the higher rate, disregarding the legal rate.⁴

The certificate of indebtedness in this loan is usually made in an attested documentary form, and when there is a provision in the contract permitting the lender the right to exercise compulsory execution or foreclosure, the lender need not go through court procedure to exercise the right.⁵ When the certificate of indebtedness is in a private documentary form, the lender even if he is given

¹ Japanese Civil Code, 1896, Article 412, paragraph 3.

² Japanese Civil Code, Article 591.

³ Japanese Civil Code, Article 415.

⁴ Japanese Civil Code, Article 419.

⁵ Japanese Civil Code of Legal Procedure, Article 559, paragraph 3, (1931 Amendment).

the foreclosure rights, will be obliged to establish his claim on the mortgage by court ruling before he can exercise the right on the mortgage.

The Loan Division keeps the Register of Loans on Deeds (SHO-SHO KASHITSUKE KIN KINYU-CHO)¹ the Ledger of Loans on Deeds (SHOSHO KASHITSUKE MOTOCHO)² and the Due Date Book of the Loans on Deed (SHOSHO KASHITSUKE KI-JITSU-CHO).³

D. LOANS ON BILLS

1. Definition of loans on bills (TEGATA KASHITSUKE)

The difference between a loan on bills and a loan on deeds is that, in the former case, the bill (TEGATA) is used for making the loan and the funds thus borrowed are generally used to expand the borrower's business or for the undertaking of new enterprises; in the latter case, however, certificates of indebtedness are used to borrow money and the money thus borrowed is used, with some exceptions, for the purpose of liquidating old debts. Thus, the loans made on bills are accommodation loans rather than commercial, and are made either on promissory notes or on bills of exchange. When a loan is made on a promissory note, the borrower of the loan is either the drawer or the endorser of the note. That is, the borrower may draw a promissory note with the lending bank as the payee or he may endorse a promissory note drawn by someone else in which he is the payee. In case the loan is made on a bill of exchange, the bill may be one drawn by the borrower and addressed to himself, made payable to the lending bank; or it may be one on which the borrower's name appears as drawer, payee, and endorser, with another party as payer. The general practice of the Japanese banks is, however, that the payer of either the promissory note or the bill of exchange is the borrower from the bank and the endorser of either the promissory note or the bill of exchange is the guarantor of the bill.

There are two types of guarantors in the loans on bills; one is an endorser of the bill, or a person who signs and seals the face of the bill with a specific written statement that he guarantees the bill. Another type is a person who guarantees the bill on the basis of the Japanese Civil Code; that is, the liability of the guarantor is not based upon the acts of the bill of laws (TEGATA HO), but is based upon the Japanese Civil Code. In the latter case, the nature of the guarantee may or may not be specified by the guarantor.

¹ See item 44, appendix 3.

² See item 45, appendix 3.

³ See item 46, appendix 3.

The specified guarantee means that the guarantee is applicable only to a specific debt, or only to a specific bill (TEGATA), while the unspecified guarantee represents the one in which the guarantor is responsible up to a definite sum of money and to a definite time limit, as in the case of the guaranteeing of the overdraft collateral contract.

From the standpoint of a loaning bank, the financial risks involved in this loan are much greater than those in a loan on bills discounted. This is due to the entirely different purposes of these two loans and to the fact that the duration of a loan on bills is usually longer than that of a loan on bills discounted. Furthermore, commercial bills held by Japanese commercial banks are eligible for rediscount by the Bank of Japan, while this privilege is not given to bills derived from loans on bills, except when secured by national or municipal bonds or corporate bonds of very high standing.

2. Handling of loans on bills

Although the methods of credit investigation for this loan differ in many respects from those used for loans on bills discounted, its physical handling is similar to that of loans on commercial bills discounted. Interest on this loan is charged in advance, as in the case of loans on commercial bills. At maturity, if the borrower is unable to pay the loan, and if the lending bank approves, the loan is renewed by having the borrower submit a new bill. The Loan Division keeps the Register of Loan on Bills (TEGATA KASHITSUKE KINYU CHO)¹, the Ledger of Loan on Bills (TEGATA KASHITSUKE MOTOCHO)², and the Maturity Book on Loan on Bills (TEGATA KASHITSUKE KIJITSU-CHO).³

The Decree on the Application of Funds of Banks, etc. (GINKO NADO SHIKIN UNYO REI) of 19 October 1940 and its Enforcement Order contain provision that a bank is allowed to make a loan on bills or on deeds to a customer to provide working capital for the same up to the amount of loan made in the previous fiscal half year. In excess of this amount, the bank must obtain permission from the Ministry of Finance. In case a customer needs funds for a special purpose, such as for payment of stocks, donations, etc., the bank is allowed to make a loan on bills or on deeds up to the amount of 30,000. yen. The above limitations are not applied to a loan which is repaid within 10 days, or a loan which has been authorized by the government.

¹ See item 47, appendix 3.

² Same as the Ledger of Bills Discounted.

³ Same as the Maturity Book of Bills Discounted.

E. CALL LOANS

1. Definition of call loans (KORU RON)

This is another type of accommodation loan, made in one of three different ways: the lender may make the loan directly to the borrower, or he may make the loan through a bill broker or the bill broker may borrow money from a bank and lend it to the borrower. The party who makes the loan is called TASHITE and the loan is called a call loan, while the borrower is called TORITE, and the amount borrowed is called call money. The call loan is chiefly designed to utilize the surplus funds of the bank for a short period of time and the amount involved in this loan is usually large. The interest rate on such a loan is a good indicator of the money market condition of a given locality at a given time. As a rule, this loan is made only on Japanese national or municipal bonds or on Grade A corporate bonds.¹ The lending bank usually makes this loan on bills and the amount of call loans outstanding is treated as part of a bank's reserve requirement. The Japanese Bank Law of 1 January 1928 forbids the inclusion of any call loan whose maturity extends beyond seven days from the date of the loan in this account. A call loan whose maturity extends beyond seven days must be included in the loan account, and may not be listed as a call loan on the balance sheet.

2. Kinds of call loans

Call Loans can be divided into two types: one is the loan which does not require advance notice for payment by the lender to the payer; the other is a loan which does require such notice. A call loan which is payable before noon on the following day (YOKUJITSU MONO) belongs to the former kind, while the latter group is divided into three different kinds.

a. *Unconditional call loan (MUJOKEN MONO)*. This is a loan which is to be settled by one-day notice of either the lender or the borrower of the loan after the day following the day on which the loan is made. The minimum number of days required before the loan is repaid is, therefore, three days, including the day on which the loan is made.

b. *Ordinary call loan (FUTSU MONO)*. This loan may be settled after one week from the day the loan has been made. One-day notice is required by either the lender or the borrower.

c. *Following month call loan (TSUGI-KOSHI MONO)*. There are two types of call loan under this heading. One is the Unconditional Following Month Call Loan (TSUGI-KOSHI MUJOKEN

¹ The Yokohama Specie Bank is one of the constant borrowers of this loan. It pays the lowest prevailing interest rate and never deposits collateral with the lender for the loan.

MONO), which may be settled on one-day's notice, after the first day of the month following the day the loan is made. For example, if a call loan is made on the fifteenth of January, it may be settled upon one-day's notice at any time after the first of February. The other type is a loan on which payment is deferred for a certain number of days after the first day of the month following the day the loan is made.

F. STATUTORY LIMITATIONS ON CLAIMS

1. Limitations on commercial bills

The Japanese Civil Code provides that the period of effectiveness of an ordinary claim (SAIKEN) is 10 years.¹ On the other hand, the Japanese Commercial Code provides that claims held by banks which are derived from commercial acts (SHOKOI) are limited to five years², unless otherwise specifically provided for in the commercial code or in other laws. The following brief discussion on the subject will be limited to commercial papers which the Japanese banks are most concerned with.

a. Bill of exchange. The claim of a holder of a bill of exchange against a payer is effective for three years from the date of maturity. The holder's claim against the endorser, the drawer or the guarantor of the bill is effective for one year from the day a Repudiation of Payment Certificate³ is prepared, or one year from the date of maturity if a repudiation certificate is not required. The claim of an endorser against a previous endorser or against the drawer of the bill is effective for six months from the day he pays and receives the bill, or from the date on which the legal action against him has been initiated by another endorser.⁴ The person who is sued on the bill informs the endorser before him of the suit. Otherwise, the interruption of the prescribed period will not take place.

b. Promissory notes. Article 77 of the Japanese Laws on Bills provides that the effective period of claims against other various parties in a promissory note is similar to that of the bill of exchange.

c. Claims on loans made on other than bills. The claims of bank loans made on other than bills are to be effective for five years.

d. Checks. The holder of a check has a claim against the endorser, or the drawer, or against the other debtor on the check for six months after the period within which the check has to be presented for payment. The period of effectiveness of the claim of one endorser against another endorser is six months from the day

¹ Japanese Civil Code, Article 167.

² Japanese Commercial Code, Article 522.

³ Refer to the handling of discount transactions.

⁴ Japanese Laws on Bills, Article 70.

on which he receives the check or from the day on which he is sued by another endorser for the check.

2. Interruption of prescribed period of time limits

In order to prevent a claim from becoming nullified due to Statutory limitations, the creditor has to take proper steps to protect his claim. The procedure is called JIKO CHUDAN NO TETSUZUKI (or, steps to interrupt the prescribed time limit). The Japanese Civil Code provides the following procedure which can be followed by the creditor or debtor in order to make the interruption effective:

1. Payment is requested by the creditor to the debtor through court action or by methods other than court action.
2. The attachment (SASHI OSAE), the provisional attachment (KARI SASHI OSAE) or the provisional disposition (KARI SHOBUN) of the debtor's property by the creditor.
3. The acknowledgment of the debt to the creditor by the debtor.

a. Interruption of prescribed time limit by court action. The creditor may bring suit against the debtor for payment of the debt or he may apply to the courts for a payment order to be issued to the debtor. If the court issues a payment order to the debtor and the debtor does not register a protest against the order within two weeks from the date the order has been sent, the creditor can apply for provisional foreclosure¹ against the property of the debtor. If, however, the creditor fails to make the application within thirty days from the date he is entitled to make the application, the court order of payment to the debtor will be nullified,² and the interruption of the prescribed time limit will not take place.³

The creditor may also request the court to issue an order to the debtor to appear in court for the purpose of obtaining an amicable settlement of the debt.⁴ If and when the debtor does not appear in court, the creditor will have to bring suit against the debtor within one month. Otherwise, the interruption of the prescribed time limit initiated by the creditor's request for settlement in court will not become effective.⁵

The creditor and the debtor may voluntarily appear in court to argue their case.⁶ However, if no agreement can be reached be-

¹ Japanese Civil Code of Legal Procedure, Article 438.

² Japanese Civil Code of Legal Procedure, Article 439.

³ Japanese Civil Code, Article 150.

Japanese Civil Code of Legal Procedure, Article 432.

⁴ Japanese Civil Code of Legal Procedure, Article 356, paragraph 1.

⁵ Japanese Civil Code, Article 151.

Japanese Civil Code of Legal Procedure, Article 356 and 354.

⁶ Japanese Civil Code of Legal Procedure, Article 354.

tween the parties, the creditor will have to bring a suit against the debtor within one month from the day they cease the argument. Otherwise, the interruption of the statutory limitation which was caused by the voluntary appearance of both parties to argue the case will cease to be effective. The creditor may also submit his claim to the bankruptcy administrator when the debtor is bankrupt. The claim must be submitted within two weeks to four months¹ after the administrator has ordered all creditors to submit the request. The interruption of the period of effectiveness then establishes a new period when the result of the bankruptcy administration is made public. When a decision has been made to conduct an auction sale on the debtor's real estate properties, resulting from the creditor's application based on the auction law, the interruption of the prescribed period will become effective.² The debtor must be notified of the decision and the new period of prescribed time limit will start when the auction is over.

b. Interruption of period prescribed by other than court action. The creditor may request payment from the debtor by Contents Certified mail (NAIYO SHOMEI YUBIN), by the bailiff (SHITTAT-SURI) or by any other method of notification. In such case, the interruption of the period prescribed will become effective. However, the Japanese law requires that in the above case, the creditor is required to take legal action to collect the debt within six months from the date of notification. Otherwise, the interruption will not become effective. When a creditor is requested to notify the heir of the debtor of the claim and receives a limited recognition (GENTEI SHONIN) of the claim, the interruption of the period prescribed will become effective. The heir will be held responsible for the claim to the extent of his inheritance. The claim which is over and above the amount inherited is regarded as a moral obligation of the heir rather than a debt from the legal standpoint.

c. Interruption of prescribed time limit by attachment, provisional attachment, and provisional disposition. Attachment is an act of foreclosure after a court ruling. The provisional attachment and provisional disposition are preparatory steps to the foreclosure. These acts will make the interruption of the prescribed period effective.

d. Interruption of prescribed time limit by acknowledgment of the debtor. To obtain an acknowledgment of the debt by the debtor in order to make effective the interruption of the prescribed time limit, the creditor is not required to present the bill or note to the

¹ Japanese Bankruptcy Law #70, 1926 Amendment, Article 142, paragraph 1.

² Japanese Supreme Court Rule, 20 April 1933.

debtor. However, when the creditor requests payment from the debtor, the creditor is required to present the bill or the note.

When the debtor acknowledges his debt, the prescribed period of time limit for the claim is interrupted, and the period starts anew from the day the debtor acknowledges the debt. This rule is also applied to the guarantor of the obligation. When the debtor pays a portion of the debt or the interest thereon, it will constitute the interruption of the period. If a debtor acknowledges his debt after the expiration of the prescribed time limit, the acknowledgment is regarded as valid and the claim of the creditor becomes legal. The legality of the claim is based on the assumption that the debtor acknowledged the debt with the full knowledge of the legal provision relating to the cancelation of the claim by the expiration of the time limit. When a promissory note is lost and the creditor applies for a court ruling to ascertain the validity of his claim on the lost note, the claim is regarded as valid while the case is pending. If the debtor acknowledges the debt while the court ruling is pending, the interruption of the prescribed time limit becomes effective. If the court rules against the creditor, the creditor will lose his claim on the note, yet he may still regain his claim on the basis of the commercial law, providing that the creditor is able to prove his commercial claim (SHOJI SAIKEN).

VII. OPERATING DEPARTMENT—EXCHANGE DIVISION

The Japanese word KAWASE or Exchange is a very common commercial term used in SOKIN or remittance, KAWASE SOBA or exchange rate, KAWASE TEGATA or bill of exchange or KAWASE JIMU meaning exchange operation, etc. The original meaning of KAWASE in Japan was "The methods of settlement of claims or debts between distant cities without the physical movement of cash." In short it implies the settlement of claims by bookkeeping methods rather than by actual movement of cash. The Exchange Division in a bank performs the middleman's function in the settlement of claims between the parties involved in distant cities or between two different countries. Thus the exchange operation is divided into Domestic Exchange (NAIKOKU KAWASE) and Foreign Exchange (GAIKOKU KAWASE). In order to carry out the exchange operation, banks in different cities or countries have a prearranged procedure, usually the signing of a contract between the banks, known as the KAWASE TORIHIKI YAKUJO. The signatory banks call each other "The Corresponding Bank" or KAWASE TORIHIKI YAKUJO SAKI. There are two types of contract: namely, the Mutual Transaction Agreement (SOHO TORIHIKI YAKUJO) and the Unilateral Agreement (IPPO TORIHIKI YAKUJO). The former implies that each contracting bank has an account in the other bank and records the transaction according to the origin of the transaction. The latter type of contract implies that only one of the banks has an account in the other bank and all transactions between the two are recorded in that account. Additional agreements known as TSUIKA YAKUJO, relating to such matters as Overdraft Agreement (KASHIKOSHI YAKUJO), the Collateral Agreement (TAMPO YAKUJO), the Agreement to Settle the Balance through their Main Office (KOTSU-KEISAN YAKUJO) and the Cable or Telegraphic Transfer Agreement (DENSIN KAWASE YAKUJO), etc., are made whenever necessary.

A. DOMESTIC EXCHANGE

The functions involved in domestic exchange can be classified into three categories: namely, the collection operation, the handling of drafts, and the handling of correspondents' accounts. The collection operation mentioned here is often handled by an inde-

pendent Collection Division and a separate chapter has been devoted to the discussion of this operation.¹ There are three different methods commonly used in sending money from one individual to another; namely, by bank draft, by current account transfer and by telegram or cable.

1. Bank Draft

The SOKIN KOGITTE (Remittance Cheque) or the Bank Draft is subject to the regulation of Japanese Laws on Cheques (KOGITTE HO)² and all legal provisions concerning cheques are also applied to bank drafts. There are two types of draft applications (SOKIN TORIKUMI IRAISHO): one is the ordinary application blank and the other provides for the draft application and for the receipt dempyo. When a bank issues a draft, it will be recorded on the Register of Drafts (SOKIN KINYU-CHO)³ and on the Ledger of Correspondents' Account (TATEN KANJO MOTOCHO)⁴ or on the Ledger of Inter-Office Account (HON-SHI-TEN KANJO MOTOCHO).

The Ledger of Correspondents' Account is divided into *Our Account* (TOHO KUCHI) and *Your Account* (KIHO KUCHI) depending upon which bank issues the draft. For example, if the amount involved in the draft is 1,000. yen, the issuing bank records the amount on the CREDIT side of the *Our Account* column on the Ledger of the Correspondents' Account. If the draft is drawn against the main or branch office of the drawing bank, the amount will be recorded on the Ledger of Inter-Office Account. Generally speaking, no classification as to *Our Account* or *Your Account* is made in this book. The drawer bank then notifies the drawee bank of the draft issue, except in cases when this notice is purposely omitted, such as when the amount of draft is below 100. yen. This process of notification is called SOKIN TORIKUMI ANNAI. Two types of forms are used in this notice: one is called the Advice of Draft Issued (SOKIN TORIKUMI ANNAI) and the other the Accounts Report (SHO-KANJO HOKOKU).⁵

There are cases in which the applicant of a draft requests the drawer bank to refund the draft. This is called KUMIMOTOSHI. In such a case, the drawer bank will make certain that the party who makes the request is the one who originally applied for the draft. If the draft is lost, the drawer bank must be notified in a proper form, known as SOKIN KOGITTE FUNSHITSU TODOKE, and the draft may be reissued after all precautionary steps have

¹ See chapter VIII.

² Refer to the discussion on "Explanation of Current Deposit and Cheque."

³ See item 48, appendix 3.

⁴ See item 49, appendix 3.

⁵ Refer to the discussion on Bills for Collection Payable Elsewhere, chapter VIII.

been taken. These include advertisement in the local papers in the cities of the drawer and drawee's bank, and a certain waiting period.

When the drawee bank receives the draft issue notice, it is recorded on the Register of Draft Payments (SHIHARAI SOKIN KINYU CHO).¹ When the draft is presented for payment, the drawee bank compares the signature and seal of representative of the drawer bank appearing on the draft with the signature and seal in their files, and looks into the Register of Draft Payments to see whether the draft issue notice had been received. If the notice has already been received and recorded, the date of payment will be recorded on the same line. If not, the details of the draft will be recorded on the book with the notation "Notice is not yet received (MI-ANNAI)". When the drawee bank pays the draft, the draft may be used to take the place of the cash payment dempyo, and the payment will be recorded on the debit side of *YOUR ACCOUNT* on the Ledger of Correspondents' Account. If the drawee bank is the main or branch office of the drawer bank, the amount will be debited in the Ledger of Inter-Office Account (HON-SHI-TEN KANJO MOTOCHO). After the transaction has been recorded, the drawer bank is notified of the payment. An Account Report (SHO-KANJO HOKOKU), is sent, together with the amount paid recorded on the debit side of the report.

2. Current account transfer (TOZA FURIKOMI)²

If A in Tokyo, who has business with the Daiichi Bank, wishes to send 1,000. yen to B in Osaka, who has a current account with the Yasuda Bank in Osaka, A submits an application for Current Account Transfer (TOZA FURIKOMI IRAISHO) to the Daiichi Bank. The Daiichi Bank in turn issues to A a Duplicate Advice on Receipt of Current Account (TOZA KANJO UKEIRE FUKU HOKOKU SHO), and sends an Advice on Receipt of Current Account (TOZA KANJO UKEIRE HOKOKU SHO) to the Yasuda Bank in Osaka. At the same time, A sends the Duplicate Advice on Receipt of Current Account to B in Osaka and B presents the advice to the Yasuda Bank to have the money credited to his current account. The Daiichi Bank then records the transaction on the Register of Current Account Transfer Dispatched (SHIMUKE TOZA FURIKOMI KINYU-CHO)³ and on the Ledger of Correspondents' Account. The Yasuda Bank in Osaka, upon the receipt of the advice from the Daiichi Bank in Tokyo, records it on the

¹ See item 50, appendix 3.

² This method of FURIKOMI (Transfer or Payment) is sometimes called TSUKIKAE or TSUKIKOMI. The Yokohama Specie Bank calls it TSUKIKOMI, indicating the interoffice transaction of this nature.

³ See item 51, appendix 3.

Register of Current Transfer Received (HI-SHIMUKE TOZA FURIKOMI KINYU-CHO).¹ When the amount is deposited into B's current account, the transaction is recorded on the Ledger of Correspondents' Account and the bank sends the notice of payment to the Daiichi Bank in Tokyo.

3. Telegraphic transfer (DENSHIN SOKIN)

No remittance cheque is involved in this transaction. Instead, a Telegraphic Transfer Receipt is given to the applicant and the drawer bank informs the drawee bank of the transaction in a coded telegram. When the Telegraphic Transfer Receipt is issued to the applicant, the drawer bank of the receipt records the transaction under the drawee bank's name on the Register of T. T. (Telegraphic Transfer) Dispatched (SHIMUKE DENSHIN SOKIN KINYU-CHO)², and when the payment notice of the T. T. is received from the payer bank, the payment date is recorded on the book. If the payer bank is a correspondent, the transaction is recorded on the Ledger of Correspondents' Account in similar manner as when an ordinary draft is issued. If the T. T. is issued against its main or branch bank, it is recorded on the Ledger of Inter-Office Account. The issuing bank then sends the T. T. advice to the bank against whom it is issued.

The bank paying on the T. T., on the other hand, decodes the telegram at the manager's desk and records it on the Register of T. T. Payable (HI-SHIMUKE DENSHIN SOKIN KINYU-CHO)³. In order to receive the money, the payee of the T. T. must present the telegraphic advice which he has received from the sender and a Receipt of Telegraphic Transfer (DENSHIN SOKIN UKETORI SHO). For this receipt a co-signature is often required to assure the paying bank that he is the rightful receiver. When the money is paid by the bank, a cash payment dempyo is prepared, or in some cases, the receipts are used in place of a dempyo. The payment is then recorded on the Ledger of T. T. Payment as in the case of payment of an ordinary draft.

All the procedures relating to the Telegraphic Current Account Transfer (DENSHIN TOZA FURIKOMI) are similar to that of the ordinary current account transfer except that in this case the telegraphic code is used instead of ordinary mail. For example, if the Yasuda Bank in Osaka deposits 1,000. yen in B's Current Account according to the coded telegram received from the Daiichi Bank in Tokyo, the Yasuda Bank makes the following entry and the amount is DEBITED into the YOUR ACCOUNT column of

¹ See item 52, appendix 3.

² See item 53, appendix 3.

³ See item 54, appendix 3.

the Daiichi Bank account in the Ledger of Correspondents' Accounts:

TRANSFER DEMPYO

	<i>Debit</i>	<i>Credit</i>
B's Current Account	1,000. yen	Daiichi Bank 1,000. yen

4. Handling of correspondents' accounts

As it has been stated in a previous paragraph, the correspondents' accounts are divided into OUR ACCOUNT (TOHO KUCHI) and YOUR ACCOUNT (KIHO KUCHI) in case the exchange operation contract is based on the mutual transaction agreement (SOHO TORIHIKI YAKUJO). The correspondents' accounts shown on the balance sheet, such as the Due from Correspondents' Account (TATEN-E KASHI) and Due to Correspondents' Account (TATEN YORI KARI) can be analyzed and presented in a simple chart form as follows:

OUR ACCOUNT	Credit Side	(KASHI-KATA)	} Due to correspondents
		Borrowed from (KARI-KOSHI)	
	Debit Side	(KARI-KATA)	
		Deposited with (AZUKE)	
YOUR ACCOUNT ¹	Credit Side	(KASHI-KATA)	} Due from correspondents
		Deposits from (AZUKARI)	
	Debit Side	(KARI-KATA)	
		Loaned to (KASHI-KOSHI)	

As is shown in the above chart, the division of all correspondents' accounts into OUR and YOUR accounts creates no simple task in the maintenance of exchange balances in a most profitable manner among the many corresponding banks. Let us assume that Bank A has a deposit of 3,000. yen with Bank B and it also has borrowed 3,000. yen from Bank C. In this case, Bank A pays a higher rate of interest to Bank C on what it borrowed than on what it receives as interest from deposit with Bank B. Consequently, it will be profitable for Bank A to cancel the 3,000. yen borrowed from Bank C against its deposit with Bank B. This process of adjusting the differences is called KAWASE-JIRI NO SOJU. There are three different methods commonly used for this operation: namely, the Transfer of Exchange Balance (KAWASE-JIRI TSUKIKAE); the Mutual Transfer and the Reverse Mutual Transfer (SOHO TSUKIKAE OYOBI GYAKU SOHO TSUKIKAE); and the Payment of Exchange Balance (KAWASE-JIRI FURIKOMI)

¹ Your Account (KIHO KUCHI) is sometimes called Their Account (SEMPO KUCHI).

and Receiving or Recalling of Exchange Balance (KAWASE-JIRI UKEIRE or KAWASE-JIRI MOTOSHIIRE).

a. *Transfer of exchange balances* (KAWASE-JIRI TSUKIKAE). Three corresponding banks are always involved in this transfer operation. The bank which originates the transfer is called TSUKIKAE GINKO or TSUKIKAE ITAKU GINKO; the bank who pays the money is called HI-TSUKIKAE JUDAKU GINKO or HI-TSUKIKAE KARIKATA GINKO; and the bank who receives the money is called HI-TSUKIKAE GINKO or HI-TSUKIKAE KASHIKATA GINKO. Citing the example given in the previous paragraph, Bank A will send a transfer request of OUR ACCOUNT to Bank B and will notify the same to Bank C. Bank B notifies Banks A and C of the transfer of deposit and records the transaction in YOUR ACCOUNT column (account of Banks A and C) in the Ledger of Correspondents' Accounts. The Bank C, on the other hand, notifies Bank A of the receipt of money in YOUR ACCOUNT from Bank B and also notifies Bank B of the deposit of money in OUR ACCOUNT. The receipt of 3,000. yen from Bank A, which is in the form of deposit with Bank B, is handled by Bank C as YOUR ACCOUNT, since the transfer operation originated from Bank A. On the other hand, the newly created deposit of 3,000. yen with Bank B is handled as OUR ACCOUNT by Bank C even though the deposit did not result from the initiative of Bank C. The reason for this method of recording is due to the fact that if Bank C handles the deposit with Bank B in YOUR ACCOUNT, which is OUR ACCOUNT from the standpoint of Bank B, it will no longer be a deposit, but will be a loan to Bank B and Bank B will have to pay a high interest rate on the money. To eliminate this type of unjustified burden upon Bank B, the corresponding banks are mutually agreed to handle the exchange transfer transactions as stated above. The following dempyos will be made by each bank to record the transactions:
By Bank A:

Debit	Credit
Bank B, Our Account ¹	Bank C, Our Account
3,000. yen	3,000. yen

By Bank B:

Debit	Credit
Bank C, Your Account	Bank A, Your Account
3,000. yen	3,000. yen

By Bank C:

Debit	Credit
Bank A, Your Account	Bank B, Our Account
3,000. yen	3,000. yen

¹ Refer to the discussion on Transfer Demyo, chapter II.

Another point to be mentioned in the above example is that the date on which the interest calculation is to start is usually determined by Bank A after an allowance has been made on the number of days required for the mail service between the parties and the date is to be approved by other banks concerned in the transaction. If the distance between the banks is too great and the number of days required for mail service is undeterminable, the interest starting day is left to be determined by corresponding banks. In case of the above example, the interest starting day will be the day on which Banks B and C make records of the transactions on their books.

b. *Mutual transfer and reverse mutual transfer* (SOHO TSUKIKAE OYOBIGYAKU SOHO TSUKIKAE). Mutual transfer implies the cancellation of the *Deposit With* (debit) balance in OUR ACCOUNT and the *Deposit From* (credit) balance in YOUR ACCOUNT on the Ledger of Correspondents' Accounts. The reverse mutual transfer, on the other hand, refers to cancellation of the *Borrowed From* (credit) balance in OUR ACCOUNT and the *Loaned To* (debit) balance in YOUR ACCOUNT on the Ledger of Correspondents' Accounts. This method of cancellation is naturally subject to approval of the corresponding bank.

As to the former method, if Bank A has a debit balance (*Deposit With*) of 3,000. yen with Bank B in OUR ACCOUNT and a credit balance (*Deposit From*) of 5,000. yen in YOUR ACCOUNT in its Ledger of Correspondents' Account, Bank A makes the following dempyo to cancel the *Deposit With* balance against the *Deposit From* balance of Bank B:

<i>Debit</i>	<i>Credit</i>
Bank B, Our Account	Bank B, Your Account
3,000. yen	3,000. yen

Bank A sends the Accounts Report (SHO-KANJO HOKOKU SHO) to Bank B, crediting the amount in OUR ACCOUNT and debiting the same in YOUR ACCOUNT. This transaction is, of course, subject to the approval of Bank B. Let us further assume that Bank A has a deposit with Bank C amounting to 1,000. yen and wishes to recall the deposit from it. In such a case, Bank A may also transfer the deposit to Bank B and reduce the amount of *Deposit From* the Bank B to 1,000. yen.

As to the reverse mutual transfer (GYAKU SOHO TSUKIKAE), let us assume, for example, the Daiichi Bank in Tokyo has sent a current account transfer request of 1,000. yen to the Yasuda Bank in Osaka and the Yasuda Bank has paid the amount to Mitsubishi & Company. The Yasuda Bank account in the Ledger of Correspondents' Accounts in the Daiichi Bank will show a credit balance

(Borrowed From) of 1,000. yen in OUR ACCOUNT. Let us further assume that the Yasuda Bank in Osaka has drawn a draft of 1,000. yen against the Daiichi Bank in Tokyo and the Daiichi Bank has paid the draft. This will create a debit balance (Loaned To) of 1,000. yen in the YOUR ACCOUNT side of the Yasuda Bank account in the Ledger of Correspondents' Accounts of the Daiichi Bank. These two balances can be cancelled against each other on the initiative of any one of the banks. If the Daiichi Bank undertakes to cancel the balance, it makes out the following dempyo and sends the Accounts Report to the Yasuda Bank, debiting the amount in OUR ACCOUNT and crediting the same in YOUR ACCOUNT:

<i>Debit</i>	<i>Credit</i>
Yasuda Bank, Your Account	Yasuda Bank, Our Account
1,000. yen	1,000. yen

c. Payment of exchange balances (KAWASE-JIRI FURIKOMI) and receiving or recalling of exchange balances (KAWASE-JIRI UKEIRE or KAWASE-JIRI MOTOSHIIRE). When a bank faces the necessity of making payment on an exchange balance at its own initiative, and the various methods described in the previous paragraphs are not suitable, the bank makes the payment of exchange balance directly to the bank concerned or through a third bank. Let us assume that the Daiichi Bank in Tokyo is obliged to issue a sizeable amount of bank drafts against the Yasuda Bank in Osaka and the two banks have no overdraft agreement between them. The Daiichi Bank will then have to find a means of creating a deposit balance with the Yasuda Bank in Osaka before the draft is presented for payment to the Yasuda Bank in Osaka. In such a case, the Daiichi Bank may remit the amount to one of the Yasuda Bank's corresponding banks in Tokyo or to the branch office of the Yasuda Bank in Tokyo to transmit the money to the Yasuda Bank in Osaka.

Supposing the Daiichi Bank decides to pay the amount to the Sumitomo Bank in Tokyo to be transmitted to the Yasuda Bank in Osaka, the Daiichi Bank will then notify the Sumitomo Bank by telephone. The Sumitomo Bank will prepare a Receipt of Exchange Balance (KAWASE-JIRI FURIKOMI RYOSHUSHO) and will collect the money through the Clearing House. The Daiichi Bank will then prepare a payment dempyo and an Exchange Balance Payment Report (KAWASE-JIRI FURIKOMI HOKOKUSHO), and make a record of the transaction in the Yasuda Bank Account (Our Account Column) on the Ledger of Correspondents' Accounts. The Exchange Balance Payment Report will be sent to the Yasuda Bank in Osaka. On the other hand, the Daiichi Bank

may send a messenger directly to the Sumitomo Bank to make the payment or it may deposit the money with the Bank of Japan in favor of the Yasuda Bank in Osaka.

The recalling of the Exchange Balance (KAWASE-JIRI MOTO-SHIIRE) implies the making of a request to a corresponding bank to return the *Deposit With* balance in OUR ACCOUNT or the *Loaned To* balance in YOUR ACCOUNT on the Ledger of Correspondents' Accounts of the requesting bank. When the requesting bank finds that the *Deposit With* or the *Loaned To* balance is idle and thinks that it could be used more profitably at home or elsewhere, the bank may request the remittance through ordinary mail or telegram. The requesting bank may also issue a cheque against the corresponding bank and send it to a third bank located in the same city where the corresponding bank is. The third bank then collects the cheque through the Clearing House or by direct presentation to the corresponding bank for payment.

The Exchange Division prepares the balance sheet (TATEN KANJO ZANTAKA HYO)¹ every day showing the balances in OUR ACCOUNT and YOUR ACCOUNT of the correspondents' account. This balance sheet will provide a clear view of its exchange balance with the corresponding banks and will enable the Exchange Division to manipulate the correspondents' accounts in a profitable manner. The Exchange Division also prepares the Accounts Sheets (KANJO SHO) of all correspondents' accounts and sends them to their correspondents to ascertain the balance and the interest calculations. It is a general custom among Japanese banks to have the accounts sheets representing the YOUR ACCOUNT in the Ledger of Correspondents' Accounts prepared by the Exchange Division and the sheets relating to the OUR ACCOUNT in the Ledger of Correspondents' Accounts prepared by the corresponding banks. The accounts sheets are generally exchanged between the corresponding banks once a month and replies are sent by each bank acknowledging the accuracy of the balance and the interest calculation contained in the sheet. The interest settlement between corresponding banks is usually a month earlier than the usual bank fiscal year, that is, at the end of May and November.

5. Inter-office accounts (HON-SHI-TEN KANJO)

The discussion on inter-office accounting is divided into two parts: (1) the mutual accounting method (KOTSU KEISAN HO) in relation to a corresponding bank; and (2) the accounting methods between main and branch offices and between branch offices.

¹ See item 55, appendix 3.

a. *Inter-office mutual accounting method in relation to correspondents.* The mutual accounting method differs from the Independent Accounting Method (TANDOKU KEISAN HO), although the procedure for handling an exchange transaction is similar. In the case of independent accounting, the method of handling the exchange business as well as its accounting method are exactly the same as has been explained in the correspondents' accounts. In the case of the mutual accounting method, however, the bookkeeping of the exchange transaction as well as the settlement of the exchange balance are done by and through the main office of one or all of the banks involved in the exchange transaction.

Supposing Bank AA is engaged in the exchange transaction with Bank B and the account between them is to be settled through Bank A which is the main office of Bank AA.¹ In such a case, Bank AA is called KOTSU TEN and the Bank A is called KESSAN TEN. The method of bookkeeping in the above case, assuming the Bank AA is asked to issue a bank draft against Bank B, is that Bank AA prepares the draft and makes a record of it on the Register of Drafts. Bank AA, however, does not keep the Ledger of Correspondents' Accounts. Instead the transaction is recorded on the credit side of the Ledger of Inter-Office Accounts (HON-SHI-TEN KANJO MOTOCHO) and the draft advice is sent to its main office, as well as to Bank B. When Bank AA receives the draft payment advice from the Bank B, the date of the payment is recorded on the Register of Drafts and the notice of payment of the draft is sent to the main office.

If, on the other hand, Bank AA receives a draft notice from Bank B, the notice is recorded on the Register of Draft Payment. When Bank AA pays the draft, it sends the draft payment advice to Bank B as well as to its main office, the Bank A, and the transaction is recorded on the debit side of the Ledger of Inter-Office Accounts. The bookkeeping methods of the Telegraphic Transfer, the Current Account Transfer, and the Telegraphic Current Account Transfer is handled in similar manner to that explained heretofore.

b. *Method of handling the exchange transaction by Bank A (KESSAN TEN).* When Bank A receives a draft notice from AA branch for 1,000. yen, it makes out the following transfer dempyo :

<i>Debit</i>	<i>Credit</i>
Bank B, Our Account	AA Branch ----- 1,000. yen
1,000. yen	

¹ In some cases Bank AA may trade with Bank BB which is assumed to be the branch office of Bank B and the settlement of accounts between the Bank AA and the Bank BB is made between Bank A and Bank B.

Bank A then records the transaction on the *Debit* side of the AA branch in the Ledger of Inter-Office Account and on the *Credit* side of the OUR ACCOUNT of Bank B on the Ledger of Correspondents' Accounts. When Bank A receives the draft payment notice from the AA branch, amounting to 1,000. yen and drawn by Bank B, it makes out the following dempyo:

	<i>Debit</i>	<i>Credit</i>
AA Branch	-----1,000. yen	Bank B, Your Account 1,000. yen

The transaction will then be recorded on the *Credit* side of the AA branch account on the Ledger of Inter-Office Accounts and on the *Debit* side of YOUR ACCOUNT of the Bank B on the Ledger of Correspondents' Accounts.

c. Inter-office-accounting methods. Inter-office accounting in this discussion means the methods of bookkeeping used in transactions arising between the main office and the branch offices and between the branch offices. The inter-office transaction naturally includes not only the exchange operations between them, but also the numerous transactions arising from administrative functions. This situation may give an impression that inter-office accounting is much more complicated than the accounting involving exchange transactions between correspondents. However, one of the distinct differences between inter-office accounting and accounting between correspondents is that in the latter case all accounts are divided into the OUR ACCOUNT and YOUR ACCOUNT as explained in previous paragraphs, while in the case of the former, this distinction is not made. This difference simplifies the method of inter-office accounting as compared with the method used between correspondents.

There are two different methods used in inter-office accounting, the *Independent Accounting Method* or *Direct Accounting Method* (DOKURITSU KANJO SEIDO or CHOKUSETSU SEIRI HO) and the *Main Office Centralized System* or *Indirect Accounting Method* (HON-TEN SHUCHU SEI or KANSETSU SEIRI HO). The former method of accounting is exactly the same as that used in handling transactions between correspondents, except that no distinction as to OUR ACCOUNT and YOUR ACCOUNT is made. Each branch office maintains the accounts of the main office as well as those of other branch offices and records the transactions with them as it would when dealing with other correspondents. This method of recording the inter-office transaction, however, is not popular in Japan at the present, due to the extensive development of the branch banking system and the merging of many banks in recent years.

(1) *Indirect accounting method or the main office centered accounting method.* As its name implies, no two branch offices have independent mutual debit or credit relationships. All such operations are carried out through the main office. To explain more specifically, assume that Bank A in Tokyo has an A-1 branch in Osaka and an A-2 branch in Yokohama. Let us also assume that the A-1 branch issues a draft amounting to 1,000. yen against the A-2 branch in Yokohama. Under the indirect accounting method, the records of A-1 branch will show that it borrowed from its main office, the Bank A, rather than from the A-2 branch. When the A-2 branch pays the draft, its records show that it loaned the amount to its main office, rather than to the A-1 branch office.

All transactions between branch offices are reported to the main office. Citing the example given above, the A-1 branch reports the issue of draft to the A-2 branch and when the A-2 branch pays the draft, it notifies its main office. On the other hand, the A-1 branch and the A-2 branch may notify each other as well as the main office of the issue and the payment of the draft.

The notice to the main office may be sent either to the Operating Division of the main office or to a Non-Operating Division, such as the Accounting Department in the main office. This difference in the addressing of the reports or the notices will create a difference in the methods of bookkeeping. If all the branch offices send the notice of the exchange transaction to the Operating Division in the main office, the Nagoya branch of the Mitsui Bank, for instance, issues draft #100, amounting to 3,000. yen against its Osaka Branch on 3 September, Showa 10, the Nagoya Branch will make a cash receipt dempyo in the account of main office amounting to 3,000. yen and will send draft advices in a form of Main Office Account Report (HONTEN KANJO HOKOKU-SHO) to Osaka Branch and to the main office recording the amount on the credit side of both reports. It also credits the amount in the Osaka branch account in the Ledger of Main Office Account. If the Osaka branch pays the draft on 4 September, it prepares a cash payment dempyo in the main office account rather than on that of the Nagoya branch. The Osaka branch will then prepare payment reports in the form of main office account reports, sending one to the main office and another to the Nagoya branch, debiting the amount on both reports. The transaction will be recorded in the debit side of the Nagoya branch on the Ledger of Main Office Account.

(2) *Handling of a transaction in the Operating Department in the main office.* The Operating Department in the main office of

the Mitsui Bank prepares the following dempyo when it receives the draft advice from its Nagoya branch :

Debit	Credit
Osaka Branch-----1,000. yen	Nagoya Branch-----1,000. yen

The transaction is then recorded on the Ledger of Branch Office Accounts, debiting the amount to the Nagoya branch account and crediting it to the Osaka branch account. When the main office receives the payment report from the Osaka branch, it is checked against the Ledger and the date of the payment will be recorded in it.

(3) *Handling of transactions in the Nonoperating Department of the main office.* The Nonoperating Department in this case usually means the Accounting Department in the main office. From the standpoint of accounting for the bank as a whole, the Accounting Department regards the Operating Department in the main office as one of its branch offices, since it performs similar operating functions. The method of recording used by the Accounting Department for inter-office transactions under this system is simpler than the method explained in the previous paragraph, since this department does not maintain the Ledger of Branch Office Accounts. This eliminates the maintenance of branch office accounts in the main office. The various branch offices, on the other hand, do not maintain the Ledger of the Main Office, thus eliminating all branch office accounts in the ledger.

There are two methods of recording inter-office transactions under this system: one is to record all transactions into debit and credit accounts, and the other is to classify all transactions into *Sent To* (SHIMUKE) and *Received From* (HI-SHIMUKE) accounts.¹ According to the latter method all branch offices as well as the accounting department in the main office have only two ledgers: the Ledger of Accounts Sent To Accounting Department (SHIMUKE-KUCHI KEIRI-BU KANJO MOTOCHO) and the Ledger of Accounts Received from the Accounting Department (HI-SHIMUKE-KUCHI KEIRI-BU KANJO MOTOCHO). The advantage of this method of recording lies in the fact that the

¹ *Sent To* (SHIMUKE) is equivalent to OUR ACCOUNT (TOHO KUCHI) and *Received From* (HI-SHIMUKE) is equivalent to YOUR ACCOUNT (KIHO KUCHI or SEMPO KUCHI). This classification in the inter-office transaction is, however, different from the classification of OUR ACCOUNT and YOUR ACCOUNT in the transactions between correspondents. In the case of the former, the classification is based upon the branch office which creates the debit or credit account on the transaction, while in the latter case, it is based upon the bank which initiates the transaction. For example, when Bank A collects a bill for Bank B, Bank A regards the transaction as YOUR ACCOUNT as the transaction is initiated by Bank B. In the case of an inter-office transaction, however, assuming that Banks A and B are the branch offices of the same bank, Branch A in the above case will regard the transaction as OUR ACCOUNT or *Sent To*, as Branch A creates the account when the bill is collected. Another difference is that the balance in the *Received From* Ledger in the inter-office transaction is transferred to the *Sent To* Ledger at the end of each business day, thus cancelling the ledger balance, while this cancellation does not take place on YOUR or OUR accounts in the ledger of correspondents' accounts.

movement of funds from one branch to another can be traced easily. Therefore, many banks in Japan are using this method.

When Branch A issues a draft against Branch B, Branch A regards it as though it had issued the draft against the accounting department of the main office and the transaction is recorded on the Ledger of Accounts Sent to Accounting Department (SHIMUKE KEIRI-BU KANJO MOTOCHO). Branch B, on the other hand, regards the draft as issued by the Accounting Department of the main office and the transaction is recorded on the Ledger of Accounts Received from Accounting Department (HI-SHIMUKE KEIRI-BU KANJO MOTOCHO). Branch A and Branch B exchange their Accounting Department Accounts Report (KEIRI-BU KANJO HOKOKUSHO). At the same time, Branch A sends the Report on Accounts Sent (SHIMUKE KUCHI KANJOSHO) and the Branch B sends the Report on Accounts Received (HI-SHIMUKE KANJOSHO) to the Accounting Department of the main office. These two reports are in a loose-leaf form and the accounting department of the main office records these forms in the ledgers of accounts received and accounts sent. As has been stated previously, the accounting department does not maintain the ledger of branch office accounts. Instead, the Total Balance Book of Accounting Department Accounts (KEIRI-BU KANJO ZANDAKA SOGO CHO) is kept, listing the branch offices and their balances. At the end of each business day, the accounting department calculates the balance on the ledger of accounts received and transfers it to the *Accounts Sent* Ledger from which it computes the day's final balance. This balance represents the net result of all inter-office transactions.

All branch offices, on the other hand, calculate the final balance of the day from the Ledger of Accounts Sent to Accounting Department, as in the main office. This balance represents the net result of their relation with the accounting department in the main office. The classification of the inter-office transactions into *Sent To* and *Received From* eventually produces the same result as it would if these transactions were handled as simple debit and credit accounts.

B. FOREIGN EXCHANGE

The main functions of the Foreign Exchange Department can be classified into Selling of Foreign Exchange, Purchasing of Foreign Exchange, Foreign Exchange Contracts and the Issuance of Letters of Credit. The following is a brief explanation of each.

1. Selling of exchange (URIKAWASE)¹

In a broader sense the selling of exchange includes the selling of foreign exchange bills, the issuance of letters of credit and the selling of foreign exchange drafts, and T. T., etc. However, only the latter two, and Bank Post Remittances will be dealt with in this discussion.

a. *Demand draft* (SANCHAKU SOKIN KAWASE).² The procedure of issuing the sight or demand draft is similar to that of the domestic draft. The issuing bank usually charges a commission on the draft and when the applicant receives the draft, he is given a memo showing the exchange calculation. The bank also sends a draft advice to the foreign drawee bank. If the latter is a correspondent with whom the issuing bank conducts constant mutual transactions, the debit balance of the issuing banks with the foreign bank, resulting from the payment draft by the foreign bank is cancelled on the book. Otherwise, the issuing bank encloses a *Cover Draft* for a similar amount, drawn in favour of the foreign bank in order to collect the amount from another bank with which it does business.

b. *Telegraphic transfer* (DENSHIN SOKIN).³ An application for T. T. is submitted by the applicant to a bank and the bank in turn gives him a T. T. Receipt. The bank sends a cable message to the addressee bank in the foreign country concerning the T. T. and sends a T. T. Confirmation (DENSHIN SOKIN SAIHO).

¹ The Yokohama Specie Bank has a system of Inter-Office Transfer (DENNAI TSUKIKAE) without the issuance of bank drafts. It is handled in two ways: one where the transferring bank notifies, either through mail or cable, the details of remittance and advises the addressee office to *debit* the amount in its account, and the other where the transferring office sends a *Credit Note* (SOKIN TSUKIKAE HYO) for each transfer together with the *Advice of Draft Sold* (HOCHI JO) to the addressee office instructing it to pay the remittance and *debit* the amount in its account. The Yokohama Specie Bank uses the following names to distinguish the different currencies used in its transfer:

<i>Kind of currency</i>	<i>Called by transferring bank</i>	<i>Called by paying bank</i>
a. In currency of the country where the transfer is paid.	Transfer sold (URI-TSUKIKAE HYO)	Transfer payable (SHIHARAI TSUKIKAE HYO)
b. In currency of the country where the transfer originates.	Transfer in home currency (FURIDASHI-CHI KA URI-TSUKIKAE HYO)	Transfer payable in foreign currency (FURIDASHI-CHI KA SHIHARAI TSUKIKAE HYO)

² The demand draft can be of two types: one issued in the currency of the addressee in the foreign country and the other issued in the currency of the sender. The Yokohama Specie Bank uses the following names to distinguish these drafts:

<i>Kind of currency</i>	<i>Called by issuing bank</i>	<i>Called by paying bank</i>
a. In currency of the country where the draft is paid.	Demand Draft (URI-KAWASE TEGATA)	Bills Payable (CHIHARAI KAWASE TEGATA)
b. In currency of the country where the draft is issued.	Demand Draft in Home Currency (FURIDASHI-CHI KA URI-KAWASE)	F.C.B.P.—Bills Payable in Foreign Currency (FURIDASHI-CHI KA SHIHARAI KAWASE TEGATA)

³ According to the currency used in the transfer of funds by T. T., the Yokohama Specie Bank uses the following different names:

<i>Kind of currency</i>	<i>Called by sending bank</i>	<i>Called by paying bank</i>
a. In currency of the country where the T. T. is paid	T. T. (URI-DENSHIN KAWASE)	T. T. Payable (SHIHARA DENSHIN KAWASE)
b. In currency of the country from where the T. T. originates	T. T. in Home Currency (FURIDASHI-CHI KA URI-DENSHIN KAWASE)	F.C.T.T.P.—Telegraphic Transfer Payable in Foreign Currency (FURIDASHI-CHI KA SHIHARAI DENSHIN KAWASE)

c. *Bank post remittance* (GINKO LUBIN SOKIN). This is a combination of the Bank Demand Draft and the Postal Money Order. For example, A in San Francisco wishes to send money to B in Urawa, near Tokyo, through the Yokohama Specie Bank in San Francisco, but the Specie Bank does not have a correspondent in Urawa against whom the draft can be issued. In such a case, the Specie Bank in San Francisco gives a Receipt to A and instructs its office in Tokyo to forward the money to B in Urawa by Japanese Postal Money Order.

2. Purchase of exchange (KAIKAWASE)¹

The main item in the exchange purchase operation is the export bill. However, the purchase of the clean bill, exchange purchase contract and the purchase of interest coupons on foreign bonds, etc. are also included in this operation.² This discussion, however, will be devoted to Clean Bills, Bills Secured by Goods and Interest Bills.

a. *Clean bills.* A Clean Bill is a bill which has no other document attached to it. It may be a private bill or a commercial bill (SHOKYO TEGATA). There are three types: namely, Banker's Clean Bill, Commercial Clean Bill and Clean Bill under Letter of Credit.

A Banker's Clean Bill usually refers to a demand bill, such as the Cover Draft³, drawn by a bank in favor of its branch office or its correspondents in a foreign country for the purpose of making certain payments. There are also Banker's Long-Term Bills or Finance Bills which are drawn for the purpose of long-term loans and also bills known as Accommodation Bills, drawn by a bank for

¹ Besides the operations mentioned under the heading, the Yokohama Specie Bank handles the Purchase of Telegraphic Transfer (DENSIN KAI KAWASE) or known as Telegraphic Transfer Bought. In this operation, the collection on bills bought is done by cable. However, the bank buys only from seller whose credit standings are unquestionable. In some cases the bank only agrees to purchase a bill providing that the payment is to be made after the bill is collected by cable. In such a case it is really a collection transaction, but since the collection is done through cable, the transaction is handled as T. T. Bought. The bank that collects the T. T. Bought calls the bill T. T. R. or Telegraphic Transfer Receivable (TORITATE DENSIN KAWASE). The names given above are those used by banks when the bill is shown in payer's currency. If the bill is shown in the currency of the seller of the bill, the purchasing bank calls it H.C.T.T.B., meaning Home Currency Telegraphic Transfer Bought (FURIDASHI-CHI KA KAI DENSIN KAWASE) and the bank that collects the bill calls it F.C.T.T.R., meaning Foreign Currency Telegraphic Transfer Receivable (FURIDASHI-CHI KA TORITATE DENSIN KAWASE).

² The Inter-Office Transfer (DENNAI TSUKIKAE) system used by the Yokohama Specie Bank in selling exchange is also used in the purchasing of exchange. In this case the *Debit Note* (KAI TSUKIKAE HYO or GYAKU KAWASE TSUKIKAE HYO) is used instead of the *Credit Note*. In the case of the purchasing of exchange in Inter-Office Transfer, the following names are used according to the differences in the currency at the time of purchase.

<i>Kind of currency</i>	<i>Called by transferring (purchasing) bank</i>	<i>Called by collecting bank</i>
a. In currency of the country when the transfer originates	D.N.—Debit Note (KAI- TSUKIKAE HYO)	D.N.R.—Debit Note Receivable (TORITATE TSUKIKAE HYO)
b. In currency of the country where the transfer is collected	H.C.D.N.—Home Currency Debit Note (FURIDASHI- CHI KA KAIATSUKIKAE HYO)	F.C.D.N.R.—Foreign Currency Debit Note Receivable (FURI- DASHI-CHI KA TORITATE TSUKIKAE HYO)

³ Refer to Selling of Exchange.

the purpose of lending the U. S. Dollar or English Pounds to individuals for two or three months.

The Commercial Clean Bill is a bill drawn by business men against a customer in a foreign country for the purpose of collecting the cost of merchandise samples, commissions, freight charges, etc. Unless the drawer of this type of bill is reliable, banks usually do not purchase it.

The Clean Bill under Letter of Credit is sometimes called *Clean Credit Bill* and is usually drawn by travelers in a foreign country according to the provision contained in the Traveler's Letter of Credit.

b. *Bills secured by goods* (NIKAWASE TEGATA).¹ Bills secured by goods are, in reality, bills secured by B/L, or Cargo Exchange Certificate. In foreign trade, this bill accompanies many other documents: such as B/L (FUNANI SHOKEN), Insurance Certificate (HOKEN SHOKEN), Invoice (OKURI JO), Consular Invoice (RYOJI OKURI JO), and Certificate of Origin (GEN-SANCHI SHOMEI SHO). Besides these documents, the drawer of the bill may also send an Advice of Bill Drawn and a statement of account to the importer. In trade between China and Japan, the so-called *Red Bill of Lading* is used. It performs the function of the B/L as well as to provide an Insurance Policy on the cargo in transit. There is also a B/L known as *Through Bill of Lading* which implies that the B/L covers the transportation of cargo on sea as well as on land.

When a bill is to be bought by a bank, the seller or the exporter is asked to submit an Application and a Letter of Hypothecation (NIGAWASE TEGATA FUKUSHO). This latter document elaborates in detail the agreement between the exporter and the bank concerning the purchase of the bill. Almost all possible future responsibility on the bill is accepted by the exporter. The bank may then purchase the bill without additional security or it may loan 70% or 80% of the amount of the bill, paying the remainder when the bill is collected. The bill may either be in D/P (Documents against Payment) form or it may be in D/A (Documents against Acceptance) form. There are also cases when the bill is bought on the basis of L/C issued by the importer's bank. In such a case, the provision contained in the L/C will be strictly observed at the time the bill is bought and the bill together with

¹ Yokohama Specie Bank uses the following different names for bills bought and collected through mail:

Kind of currency	Called by purchasing bank	Called by collecting bank
In currency of the payer	B.B.—Bills Bought (KAI KAWASE TEGATA)	B.R.—Bills Receivable (TORITATE KAWASE TEGATA)

all the documents are sent to its corresponding bank in the foreign country for collection.

If the bill is in a D/P form and the importer wishes to obtain the documents before the maturity of the bill, he may do so after securing a proper understanding with the collecting bank and the shipping company. The importer may submit a Trust Receipt (TEGATA FUZOKU NIMOTSU HOKAN SHO)¹ to the bank to obtain the B/L or he may obtain the Letter of Guarantee (NIMOTSU HIKITORI HOSHO) from the bank, submit it to the shipping company and obtain the cargo. In any event, the collecting bank sees to it that the amount of the bill is collected.

In order to encourage export trade, the government as well as large municipal governments have adopted the following policies:

(1) *Indemnification system of losses on export advances* (YUSHUTSU SHIKIN YUZU SONSHITSU HOSHO SEIDO). Under this system the government or large city municipal government pays part of the losses caused by export advances (YUSHUTSU MAEGASHI) made by banks to exporters.

(2) *Indemnification system of losses on advances for manufacture of export goods* (YUSHUTSU-HIN SEIZO SHIKIN YUZU SONSHITSU HOSHO SEIDO). Under this system, losses which may be incurred on advances made by banks to the exporters for the purpose of manufacturing export goods are indemnified either by the government or by the large municipal governments.

(3) *Export bill indemnification system* (YUSHUTSU TEGATA HOSHO SEIDO). Under this system, when an export bill is dishonored, that is when the payer of the bill refused to pay, the Japanese government or the municipal governments in large cities compensate part of the losses. There are two kinds of compensation under this system: one is compensation to the bank, known as KO-GO HOSHO (#A compensation). In this case, the compensation applies to the bank, and the drawer of the bill is held liable on the bill. The other type is known as OTSU-GO HOSHO (#B Compensation). It is a kind of insurance, applied not only to the bank but also to the exporter, or the drawer of the bill. If the bill becomes dishonored, the drawer of the bill is not held liable for the losses up to the limit of the amount to be compensated.

According to Law #44 of 6 March 1941, which became effective on 1 April 1941, relating to the export indemnification, the amount of compensation on losses is raised from 80 percent to 90 per-

¹ The Yokohama Specie Bank provides two types of Trust Receipts to importers: one is the *A Form* and the other is the *B Form*. Under the *A Form*, the bank permits the importer not only to transfer the cargo from the ship to a warehouse, but also to sell the cargo to another business man. The *B Form*, on the other hand, permits the importer only to transfer the cargo from the ship to a warehouse and the importer returns the warehouse receipt to the bank.

cent. If the bill is dishonored, the expenses incurred in the disposal of goods will be taken into consideration in the determination of the amount of losses on the export bill.

*c. Interest Bills (RITSUKI TEGATA).*¹ This is a bill which shows the rate of interest to be charged the payer of the bill at the time of collection. The difference between this bill and the bill secured by goods described above is that the former expresses the amount of bill in the exporter's currency while the latter expresses the amount in the importer's currency. When a bank purchases the latter bill, the rate of exchange which the bank uses at the time the bill is bought includes the amount of interest on the bill from the purchase date to its maturity date, plus the bank's commission. Therefore, no further charge of interest on the bill is necessary. However, when the interest bill is bought by the exporter's bank, the interest on the bill is charged to the importer. Accordingly, the rate of interest to be charged is shown on the bill. When the bill matures, the importer pays the amount of the bill as well as the interest from the date the bill was issued to the day of payment on the basis of the acceptance rate. As a specific example, let us assume that a Japanese importer has to pay an interest bill amounting to \$1,000. with 6% interest for 50 days and the acceptance rate is \$29. per 100. yen. The total amount of payment will be

$$\frac{1,000. + (1,000 \times \frac{0.06 \times 50}{365})}{\frac{29}{100}} = 3,476.58 \text{ yen}$$

In prewar days, Japanese importers from the U. S. and from Great Britain usually paid the interest bills, while the Japanese exporters to China, the South Sea Islands, India and Central or South America usually drew bills in their own currency.

The Japanese government issued a foreign trade control order on 14 May 1941 based on Article 9 of the National Mobilization Law. This order became effective in Japan proper from the 15th of May and in Korea, Formosa, and other areas from the 25th of May, 1941. Its pertinent points are that the Minister of Commerce and Industry may, when he finds it necessary, order the export or import of a certain commodity, limit the quantity in trade, or stop the trade. The Minister may dispose of the merchandise as he sees fit, and any losses which are incurred to the parties involved are to be compensated by the government.

¹ Yokohama Specie Bank uses the following different names for this type of bill:

<i>Kind of currency</i>	<i>Called by purchasing bank</i>	<i>Called by collecting bank</i>
In currency of the seller of the bill	I.B.—Interest Bill (RITSUKI KAWASE TEGATA)	I.B.R.—Interest Bill Receivable (TORITATE RITSUKI KAWASE TEGATA)

3. Foreign exchange contract

This refers to the contract on future exchange transactions. The future exchange rate is determined by a bank on the basis of the present rate as well as the supply and demand situation of foreign exchange. By this contract exporters and importers are able to eliminate the uncertainty caused by the fluctuations in the foreign exchange rate. Furthermore, the bank can derive a profit from this transaction. Banks enter into selling contracts with importers, buying contracts with exporters and selling and buying contracts with each other. The term of contract which runs three days to a month is called the short-term contract while the contract which runs from three months to four months is called the long-term contract. The selling contract is usually long-term, while the buying contract is usually a short-term contract.

The exchange broker¹ usually acts as middleman in the transaction. He charges 1/16% of the amount involved in a transaction between business men and banks and 1/32% of the amount in trade between the banks, as a commission. When a contract is made through a broker, the broker prepares the contract and gives one to both buyer and seller. In some cases, the contract may be postponed or cancelled. If the contract is cancelled, the bank usually penalizes the cancelling party and the contract is canceled² by settling the difference between the amount of contract and the amount in T. T. rate on the day the contract is canceled. In recent years, however, Japanese banks have agreed not to pay the differences, if any, to the business men when the contract is canceled.

4. Letters of credit (SHINYO JO)

There are two types of letters of credit—the commercial and the traveler's.

a. Commercial letter of credit (SHINYO JO). The commercial letters of credit used by Japanese importers are of two types: the Clean Letter of Credit and the Letter of Credit on Bills Secured by Goods (NIGAWASE SHINYO JO).³ The former is used for clean bills while the latter is issued by the importer's bank at his request, guaranteeing the acceptance and the payment on the exporter's bill drawn against the importer. The following is a brief explanation of the different types of commercial letters of credit.

(1) *Revocable and irrevocable L/C.* From the standpoint of the exporter, the revocable L/C cannot be considered reliable.

¹ The activities of exchange brokers are greatly limited since the proclamation of foreign exchange regulations.

² Yokohama Specie Bank calls it *Set Off*.

³ The Yokohama Specie Bank calls it Documentary Letters of Credit.

The #C Form of the Yokohama Specie Bank is of this type, but it is believed that revocation does not usually take place unless circumstances make it unavoidable.

(2) *Confirmed and unconfirmed L/C.* The confirmed L/C contains the statement guaranteeing the acceptance and the payment of the exporter's bill. Generally speaking, the revocable L/C is unconfirmed while the Irrevocable L/C is confirmed.

(3) *With recourse and without recourse.* The L/C with recourse refers to a bill which is drawn according to L/C and dishonoured, recognizes the right to demand repayment to the drawer or to the person who sold the bill to the bank and vice versa.

(4) *Open and restricted.* The open L/C refers to the bill which may be bought by any bank, while the restricted L/C refers to those bought only by a certain designated bank. As a rule, the open L/C is sent directly to the exporter by the importer. But in general the bank sends the L/C to a bank in the same city as the exporter, and the bank notifies the exporter of the arrival of the L/C. Thus, the open and restricted rule of L/C is not strictly adhered to.

(5) *Revolving credit.* This refers to the L/C which is used over and over again providing the bill outstanding does not exceed the amount of the L/C. To be more specific, when the importer pays the bill drawn according to L/C, the exporter can draw another bill under the same L/C. The so-called *Term Revolving L/C* refers to the one in which the limitation on the amount of bill and the time: e.g., one month is set and permits the exporter to draw the bill over and over again within the limit of amount and time until the L/C is cancelled.

(6) *Credit with red clause.* This refers to the L/C which permits the exporter's bank to grant an advance loan¹ to the exporter. The statement of this request is written in *Red Ink* in the L/C.

(7) Credit Opened by London or New York Bankers was also in use in prewar times. These were usually drawn either in English or in U. S. currency at the direct request of the importers or indirectly through another bank², usually the importer's bank.

The application for L/C³ contains information relating to the

¹ The Yokohama Specie Bank calls this type of advance, KAWASE MAEGASHI.

² The L/C #S Form of the Yokohama Specie Bank is of the same type.

³ The letters of credit issued on Bills Secured by Goods by the Yokohama Specie Bank are of two types: one is in the *Instruction Form* and the other is the letter of credit.

a. *Instruction forms:* These are of two types: the C Form and the B Form. The former is the one instructing the foreign bank to purchase the bill drawn by the exporter against the importer. It is *revocable*, but the revocation rarely takes place. The B Form of instruction is one where

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amount and kind of currency to be shown on the bill; the name of the beneficiary, who is generally the exporter; the drawer and the drawee of the bill; maturity date of the bill; time limit for the L/C; the name, quantity, the total and the unit price of the merchandise; date of shipment; names of shipping and arrival ports; the name of the ship; the name of accompanying documents and the amount of insurance, etc. In many cases, the bank issuing the L/C requests the applicant to deposit security with the bank against the L/C issued. The security requirement naturally depends upon the credit standing of the applicant, as well as that of the exporter, the kind of L/C issued, and the type of merchandise in question.

The bank which issues the L/C then notifies the foreign bank concerning the L/C. The L/C may be issued to the exporter, to the branch office or to the correspondents in the foreign countries. In any case, it is a general rule that the notification¹ of the L/C issued is done through the bank in the foreign country to the exporter.

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the bank gives instructions to its branch offices in foreign countries to purchase the shipping documents from the exporter, obtain the exporter's receipt for the cargo sold and draw a bill against the importer. The exporter's name, therefore, does not appear on the bill. Accordingly, it is called the *Irrevocable and without recourse* Form of instruction.

b. Letters of credit. Following are the different forms of letters of credit issued by the Yokohama Specie Bank:

(1) #S. C:—guarantees the acceptance and the payment on the bill drawn by the exporter against the importer. However, the purchase of the bill under this L/C is limited only to the branch offices of the Yokohama Specie Bank.

(2) #D. C:—is the London Acceptance Credit issued by the Yokohama Specie Bank to accept the payment of the exporter's bill. It is an open credit, but in many cases the negotiation for the sale of the bill by the exporter is limited to the Yokohama Specie Bank in London. The bank issues the credit to the exporter in the foreign country and notifies him through the Yokohama Specie Bank in London or through another foreign bank. The Yokohama Specie Bank in London is naturally informed of the issue. The exporter then draws a bill against the Yokohama Specie Bank in London and the Yokohama Specie Bank in London accepts it. At the same time, the Yokohama Specie Bank in London notifies the issuing bank in Japan by cable the number of L/C, the amount and maturity date. The issuing bank then requests the importer to draw a bill in the same amount and maturity date in favour of the bank and requests the importer to accept the bill. When the maturity date comes, the bank collects the bill from the importer and remits the amount to the London Yokohama Specie Bank by means of Inter-Office Transfer (DENNAI TSUKIKAE). The New York acceptances are also used by the Yokohama Specie Bank.

(3) #S:—is issued only to the London Yokohama Specie Bank; otherwise the method of handling this L/C is exactly the same as that of the #D.C. letter of credit.

(4) #D:—is the Open, Confirmed, Irrevocable Bank Credit issued by the Yokohama Specie Bank to exporters. The Exporter draws a bill against the Yokohama Specie Bank which issues the L/C and the bank in return requests the importer to draw a bill on a similar amount and on similar maturity date in favour of the bank which issued the L/C.

(5) The Yokohama Specie Bank also has the following different letters of credit, but they are rarely used:

(a) #E:—Y.S.B. guarantees the acceptance and the payment of the bill drawn by the exporter against the importer. It is an irrevocable L/C.

(b) #L:—Issued in domestic trade, and payment on the bill is guaranteed by the Y.S.B.

(c) #B.A:—is a New York Acceptance Irrevocable instruction.

(d) #C.A:—is a New York Acceptance Revocable instruction.

¹ In the case of the #C and the #B instruction forms used by the Yokohama Specie Bank, no special form of notification is used. It merely sends an instruction attached to the copy of the application for L/C to the bank in the foreign country.

b. *Traveler's letter of credit* (RYOKO SHINYO JO).¹ This is issued for the benefit of travelers in foreign countries. A traveler may carry his own identification card² or the signature of the traveler may be sent directly to the drawee banks in the foreign country by the bank which issues the L/C. The Traveler's Cheque is another form of L/C. The traveler draws the cheque at the bank where he cashes it in the foreign country, and the payment of the cheque is guaranteed by the bank which issued the credit providing the cheque bears the true signature of the traveler for whom the credit is issued.

¹ Yokohama Specie Bank issues the following different types of Traveler's Letter of Credit:

a. #A:—is issued by the bank requesting one or more of its branch offices in foreign countries to purchase demand bills drawn by the traveler against the bank which issued the L/C. The indication book (Identification Book) may be carried by the traveler or the issuing bank sends the signature of the traveler to all the branch offices to whom the purchase request is sent.

b. #A.C:—is issued by the Y.S.B. requesting its branch offices and its correspondents in foreign countries to purchase sight drafts drawn by the traveler against the bank which issued the L/C.

c. #C.C:—is issued by the Y.S.B. requesting all its branch offices and its correspondents in foreign countries to purchase demand drafts drawn by the traveler against its London branch or its New York branch office. The payment of the draft is guaranteed by the bank which issued the L/C, and the issuing bank sends samples of the signature and the seal of the traveler to its London office or to its New York Office.

² The Yokohama Specie Bank calls it "Indication Book."

VIII. OPERATING DEPARTMENT—COLLECTION DIVISION

In some banks the collection operation is handled by the Exchange Division, while in the large banks this operation is handled by a separate Collection Division (TORITATE KAKARI). As its name implies, the function of the Collection Division is to collect on promissory notes, bills of exchange, checks, interest coupons and dividend receipts, etc., for its customers, its main or branch offices, and its correspondents. Fees are charged to cover the cost of operation as well as a commission for the service. Items for collection can be divided into two main categories: the items payable at the bank which handles the collection, and the items payable at other banks, regardless of whether the bank is situated in the same city or not. Customers who request a bank to collect on their bills will be asked to endorse the bills with a statement specifying the purpose, such as "For the purpose of collection."¹ This statement serves to distinguish the endorsement from an ordinary negotiation, or the transfer of claims on the bill to another person.

A. BILLS FOR COLLECTION PAYABLE ELSEWHERE (TASHO DAIKEN TORITATE TEGATA)

1. Kinds of bills

There are three different kinds of bills in this group: namely, Bills Discounted Payable Elsewhere (TASHO WARIBIKI TEGATA), Bills Secured by Goods (NIGAWASE TEGATA), and Bills for Collection Payable Elsewhere (TASHO DAIKIN TORITATE TEGATA). The last includes not only the bills other than the bills discounted payable elsewhere and the bills secured by goods, but also other collection items, such as interest coupons, dividend receipts, checks, etc. These items are sometimes called DAI TE which is an abbreviation for DAIKIN TORITATE TEGATA). The Bills Discounted Payable Elsewhere and the Bills Secured by Goods mentioned above are the bills on which the bank made loans, and are to be sent to its correspondents or its main or branch offices for collection. The collection operation on these bills is sometimes performed by the Loan Division, while in other cases, it is done by an independent Collection Division.

The applicants for bills for collection payable elsewhere can be divided into three groups: namely, the customers, the main or

¹ Japanese Laws on Bills, Article 18, paragraph 1.

the branch office of the bank, or its correspondents. When a customer requests the bank for collection of a bill, the latter will examine the bill to see whether it satisfies all legal requirements. The bank gives the customer a receipt for the bill (DAIKIN TORITATE TEGATA UKETORI SHO), or the receipt is sometimes recorded on the customer's pass book. The bill is then recorded on the Register of Bills for Collection Payable Elsewhere (TASHO DAIKIN TORITATE TEGATA KINYU CHO).¹ When the applicant for collection is the bank's main or branch office or its correspondent in a distant city, and the bill is to be collected by another bank in the same city, a different procedure is required. The bill sent to the bank is accompanied by a Delivery Slip (SOTATSU JO) and the bank must check the slip against the bill. The receiving bank then sends the Arrival Advice of the Bill (TEGATA TOCHAKU HOKOKU) to the sender bank. The bill is recorded in the Forwarded To column of the Register of Bills for Collection Payable at home and also recorded on the Register of the Bills for Collection Payable Elsewhere.

When bills sent for collection are bills on which the bank made loans, such as Bills Secured by Goods (NIGAWASE TEGATA) or Bills Discounted Payable Elsewhere (TASHO WARIBIKI TEGATA), they are recorded on the Register of Bills Discounted for Collection Payable Elsewhere (TASHO WARIBIKI TEGATA TORITATE KINYU-CHO)² and the Register of Bills Secured by Goods for Collection Payable Elsewhere (TASHO NIGAWASE TEGATA TORITATE KINYU-CHO).³

2. Procedure of sending bills for collection

As has been pointed out previously, all bills requested for collection must be endorsed by the applicants, and all bills for collection payable elsewhere must be endorsed by the sending bank. The bank endorsement contains the name of the sending bank, the signature and seal of the representative of the bank, the date and a statement that "The amount on the bill has been requested for collection. Please pay the same to X bank or to its order." Bills which are to be collected by the main or the branch office of the sending bank need not be endorsed. When the collection item is a receipt or a check made payable to a bearer, a rubber stamp is stamped on the check or the receipt indicating the name of the sending bank and the receiving bank. Checks to be sent for collection are usually made out to SEMBIKI⁴, drawing parallel lines on the face of the checks. All collection items are numbered by

¹ See item 56, appendix 3.

² See item 57, appendix 3.

³ See item 58, appendix 3.

⁴ Refer to the discussion on Current Deposit and Cheque.

rubber stamping on the face, according to NITE which is the abbreviation for NIGAWASE TEGATA (Bills Secured by Goods) ; WARI TE meaning WARIBIKI TEGATA (Bills Discounted) ; and DAI TE which is the abbreviation for DAIKIN TORITATE TEGATA (Bills for Collection). If the sending bank wishes to know by telegram whether or not the bill has been collected when due, such request is stated on the face of the bill in rubber stamp: such as, DENSHIN TSUCHI (Notify by Telegram), or NYUKIN DENKOKU (When collected, notify by telegram). Another kind of rubber stamp which states FUWADARI DEMPO (If dishonored, notify by telegram) is also used when the sending bank wishes to be informed. When a cargo exchanged certificate is attached to the bill, it should also be stated on the bill.

The Collection Division will then prepare Delivery Slips (TEGATA SOTATSU JO) and an Arrival Advice of Bills (TEGATA TOCHAKU HOKOKU), and send them to each receiving bank with the bills. All bills sent for collection are recorded on the Maturity Book of the Bills for Collection Payable Elsewhere (TASHODAIKIN TORITATE TEGATA KIJITSU CHO).¹ All bills are recorded in the book by date due.

3. Methods of entry making

When a bill is collected on the date due, the sending bank will be notified and it then records the collection on the Register of Bills for Collection Payable Elsewhere, noting the collection and transfer dates. The collection date is the day on which the bill has been collected and the transfer date is the day on which the receipt entries are made. If Bank C sends the collection notice of a bill to Bank B which was requested by customer A, amounting to 1,000. yen, Bank B makes the following entry, assuming that the money was deposited into A's current account:

<i>Debit</i>	<i>Credit</i>
A's Current Account _ 1,000. yen	Bank C _ _ _ _ _ 1,000. yen

Bank B sends a notice of the bill collected (TORITATE ZUMI TSUCHI SHO) to A, and A will return the Receipt of Bills for Collection (DAIKIN TORITATE TEGATA UKETORI SHO) to the bank with A's signature and seal on it. This receipt was originally given to A upon application for collection of the bill.

When the bill collected is one requested for collection by a corresponding bank, that is, when Bank B receives a notice of collection from Bank C originally requested for collection by Bank D, Bank B has to notify Bank D of the collection. Bank B in the above case, prepares an Accounts Report (SHOKANJO HOKOKU

¹ See item 59, appendix 3.

SHO), recording the amount collected on the credit side of “Your Account (KIHO KUCHI)” and sends it to Bank D. The Accounts Report is similar to the Notice of Bills Collected. The following entry, for 1,000. yen, for example, is made by Bank B to record the transaction:

<i>Debit</i>	<i>Credit</i>
Bank D-----1,000. yen	Bank C-----1,000. yen

There are cases where the payer of a bill requests the collecting bank to postpone the payment on the bill due to his financial difficulty or other difficulties between the parties involved in the bill. In this case, the collecting bank notifies the bank which sent the bill of the payer’s request for deferment, including the reason and the date limit requested for postponement. On the other hand, there are also cases where the sending bank inquires into the reasons for the delay when it does not receive the collection notice from the collecting bank after the maturity date. In this case, the bank sends an inquiry slip (TORITATE TEGATA TOIA-WASE JO). When the request for the postponement of the payment is received, the bank sends a Notice of Bill Not Yet Collected (TEGATA TORITATE MISAI TSUCHI) to the applicant for collection. This notice contains the reason for the delay in payment and the amount of time requested for payment. The applicant then notifies the bank whether or not he grants the request, and the bank in turn notifies the collecting bank of the applicant’s decision. When a bill is dishonored and is returned from the collecting bank, a notice of the arrival of the bill is sent to the collecting bank and the bill is returned to the applicant in exchange for the receipt of the bill for collection.

B. BILLS FOR COLLECTION PAYABLE AT HOME
(TOSHO DAIKIN TORITATE TEGATA)

1. Kinds of bills payable at home

There are two types of applicants in this kind of collection bills: first, the customers of the collecting bank; and secondly, its corresponding banks or its main or branch offices. The former bills are called TOKI TOSHO TORITATE TEGATA (the bills for collection payable at home originated by us), and the latter type bills, are called SENKI TOSHO TORITATE TEGATA (Bills for collection payable at home originated by others). Bills requested for collection from the latter group may include bills which are to be paid at the payer’s home, at the bank which collects the bill, at other banks in the same city, and bills which need to be transferred to banks in other cities for collection. Bills requiring transfer are first recorded in the Forwarded To column of the Register

of Bills for Collection Payable at Home and the procedure for collection of bills payable elsewhere is followed.

2. Handling of bills payable at home

Receipts or Arrival Advices are issued against all bills received for collection and they are recorded on the Register of Bill for Collection Payable at Home (TOSHO DAIKIN TORITATE TEGATA KINYU-CHO).¹ All payers of the collection bills are informed of the date due and arrival of their bills. The bills are arranged in order of maturity dates, recorded on the Maturity Book (TOSHO DAIKIN TORITATE TEGATA KIJITSU-CHO)² and kept in the manager's desk. When the maturity date comes, they are collected either by bank messenger, through the clearing house or paid by the customer at the bank. When bills are collected at maturity, cash receipt dempyos or transfer dempyos are prepared to record the transactions and the collections are noted on the Register of Bill for Collection Payable at Home and the Maturity Book of Bills for Collection Payable at Home. After recording all receipts on books, the collecting bank notifies all banks or persons from whom the collections were requested.

In some cases, the corresponding bank requesting the collection sends a Request for Return of Bill (KUMI MODOSHI IRAI JO) if the payer fails to pay at maturity. In such a case, the collecting bank will return the bill to the corresponding bank inclosing a Return Bill Arrival Advice (HENKYAKU TEGATA TOCHAKU HO). The bill thus returned is recorded on the proper books. The Returned Bill Arrival Advice is returned to the sender when the bill reaches the corresponding bank. If a bill is dishonored at maturity, the collecting bank will notify the corresponding bank which requested the collection either by telegram or by ordinary mail, depending upon the circumstances and the bill will be returned to the corresponding bank.

¹ See item 60, appendix 3.

² See item 61, appendix 3.

IX. OPERATING DEPARTMENT — OTHER DIVISIONS, BUREAU AND CLEARING HOUSE OPERATIONS

A. SECURITY DIVISION

The Security Division (SHOKEN KAKARI) in a bank deals with the purchasing and selling of securities and their safe-keeping. It studies the various securities, such as government bonds (KOSAI SHOSHO), Ministry of Finance bills (OKURA-SHO SHOKEN), stocks (KABUKEN) and corporation bonds (SHASAI), etc., from the standpoint of investment as well as from the standpoint of utilizing idle liquid funds for a short period of time. Purchases and sales are conducted under the direction of a responsible officer of the bank. All purchases and sales are recorded, according to kind, either on the Register of Purchase and Sale of Government Bonds (KOKUSAI SHOKEN BAIBAI KINYU-CHO), the Register of Purchase and Sale of Prefectural and Municipal Bonds (CHIHO SAIKEN BAIBAI KINYU-CHO) or the Register of Purchase and Sale of Stocks (KABPKEN BAIBAI KINYU-CHO). Each of these books is divided into purchase and sales columns. When securities are purchased, the purchase price is shown on the purchase column and when they are sold, the average purchase price, the sales price and the difference in these two is recorded on the sales column indicating either profit or loss in the transaction.

The securities kept by this division consist not only of those belonging to the bank, but also those which are entrusted for safe-keeping by its customers, those which are deposited by its customers as collateral for loans and warehouse receipts, etc. All incoming and outgoing securities are recorded on the Security Dempyo (SHOKEN DEMPYO) by each division where the transaction originates. For example, if securities are received as collateral for loan, the Security Dempyo is prepared by the Loan Division, while if the securities are received as collateral for overdraft loan, the dempyo is prepared by the Deposit Division. All Security Demyos are examined by the head of the division as well as by the manager of the bank. It keeps a Record Book on Securities in Possession (SHOYU YUKASHOKEN DEIRI-CHO), Record Book of Collateral Securities (TAMPO SHOKEN DEIRI-CHO) and Record Book of Warehouse Receipt Collaterals (TAMPO KURANI SHOKEN DEIRI-CHO).

B. MORTGAGE AND SAFE-KEEPING DIVISION

The Mortgage and Safe-Keeping Division (TAMPO HIN OYOBİ HOGO AZUKARI KAKARI) handles legal matters relating to the establishment of mortgages, the power of attorney on the collateral securities, certificates of deposit on collateral securities from customers, and the establishment of claims on real estate mortgages. All collaterals thus received are recorded on the Register of Collateral Securities (TAMPOHIN KINYU-CHO) and when collaterals are received from customers, receipts are issued to them. It also receives valuables for safe-keeping. The articles thus received are examined and recorded on the Register of Deposits for Safe Custody (HOGO AZUKARI HIN KINYU-CHO) and when the articles are returned, fees are charged for the service.

C. RECEIPT AND PAYMENT BUREAU

The Receipt and Payment Bureau (SUİTO KA) is generally divided into the Receiving Division, the Paying Division and the Clearing Division.

1. Receiving Division

The Receiving Division handles not only cash, but also checks, bills and other items which are handled as cash. When the receiving teller receives cash from the customer, he records the kinds of receipts on the Cash Receipt Dempyo and on the Cash Receipt Book (SHUNO CHO). He puts his seal on the Receipt Dempyo to certify that the cash has been received and sends it to the department or division of origin. If the Cash Receipt Dempyo is for a deposit of money into the customer's current account, it will go to the Deposit Division and if the cash receipt is for the repayment of a loan, the Receipt Dempyo will go to the Loan Division. At the end of the business day, the receipt teller totals the Cash Receipt Book, checks the total amount of cash received with the Accounting Division and the amount of total receipts is sent to the Payment Division.

2. Payment Division

The Payment Division (SHIHARAI KAKARI) pays out cash according to the Cash Payment Dempyo (SHIHARAI DEMPYO) sent to this division by the other divisions through the manager. Before the *dempyo* is paid, the payment teller makes certain that the *dempyo* bears the manager's seal and pays to the person whose pay-tag bears the same number as is shown on the *dempyo*. After the *dempyo* is paid, the teller places his seal on the *dempyo* and records the payment in the Payment Book (SHIHARAI CHO). At the close of the business day, the Payment Book is totaled and

is deducted from the total of the balance forwarded from the previous day and the amount received during the day. The balance then indicates the amount of cash on hand as well as the cash balance in the Accounting Department. Checks and the bills payable by other banks which are received as cash during the day are recorded on the respective books and sent to the Clearing Division for the purpose of presenting them to respective banks for collection at the Clearing House.

3. Clearing Division

The Clearing Division (KOKAN KAKARI) prepares checks, bills and other items to present for collection at the Clearing House and handles the same items received at the Clearing House which are to be paid by its own bank. The procedures of handling these items are discussed below.

D. CLEARING HOUSE OPERATION

The so-called Clearing House (TEGATA KOKAN SHO)¹ is a juridical body, incorporated by a group of banks in a given locality for the purpose of exchanging checks, bills, and interest coupons, etc., which are received from customers² during the course of business and payable by other member banks of the Clearing House Association. The debit and credit balances thus created by the exchange of checks and bills, etc., are also cleared through a *mother bank*,³ generally the Bank of Japan. Membership in the Association, in metropolitan areas, is generally limited to banks which have current accounts with the Bank of Japan and each member bank is required to deposit with the Association a certain amount of Grade A securities as collateral in order to guarantee the payment of debts resulting from the clearing operation. Initial membership fees are charged, usually according to the capitalization of each member bank. When a member bank becomes financially embarrassed or violates the regulations of the Association, the chairman of the Association may order the bank not to participate in the clearing operation, and with the approval of the other members of the Association, its membership in the Association may be cancelled.

The expenses for the maintenance of the Clearing House are borne by each member of the Association; one-half is equally di-

¹ In April 1941 there were 10 in Korea, 5 in Formosa, and 49 clearing house associations in Japan. The so-called six large city clearing house associations are the associations in Tokyo, Osaka, Kobe, Kyoto, Nagoya, and Yokohama.

² Refers not only to business men, but also to corresponding banks.

³ In Korea and in Formosa the Bank of Chosen and the Bank of Taiwan act as mother banks respectively.

vided and the other half is paid by each bank in proportion to the amount of clearing done by each bank. The clearing house agreement also provides for the method of clearing operation, the method of settling the clearing balance, the rules governing the return of dishonored checks and bills, etc., the rules governing the performance of clearing operation by a member bank on behalf of a non-member bank, and penal clauses in case of violation of the agreement. When a bank cannot be admitted as a qualified member of the Association, it may make an agreement with one of the member banks through which it may enjoy the privilege of clearing checks and bills at the clearing house.

1. Procedure of clearing house operation

A member bank may present the following items for clearance:

a. Bills. Bills of exchange, promissory notes or deposit certificates which have matured or are payable at demand.

b. Checks. Ordinary checks, Lined checks (SEMBIKI KOGITTE), acceptance checks and bank drafts.

c. Certificates. Deposit certificates, dividend receipts, postal money orders, postal deposit receipts, government payment orders, interest coupons on government, and corporation bonds.

The bills of exchange mentioned above are those which are accepted by the payers and payable either at the member banks or at the bank whose clearing operation is done by another bank. They may be commercial bills or bills secured by goods discounted by the bank; bills which are requested for collection by the customers who have current accounts with the bank; bills which are received for collection from its corresponding banks; or bills arising from its call loan transactions with other banks. The other items mentioned above need no further explanation.

2. Preparation for clearing

The Clearing Division of a bank first endorses all items, indicating that the amount is received. This is done by rubber-stamping the back of each item. All items are then classified according to the bank to which it will be presented for payment and slips (KOKAN SOEHYO) are attached to the top of each group showing the name of the bank, the number of checks or bills, and the amount. Each total amount is recorded under each bank on the *credit side* of the *Clearing Balance Sheet* (KOKAN SASHIHIKI-HYO). On the other hand, the kinds, the number of checks or bills, etc., and the name of the bank to which they are presented are recorded on the *Clearing Book* (KOKAN BO or KOKAN TEGATA HIKAE-CHO).

The reason for crediting the amount under each bank on the Clearing Balance Sheet is that the bank regards these amounts as payment for deposit with the Bank of Japan. The Clearing Division then prepares a Cash Payment Dempyo or Transfer Dempyo in such a way as to indicate that all items to be presented for collection at the Clearing House have been deposited with the Bank of Japan. The items which were handled as cash when they were received are totaled and the Cash Payment Dempyo is prepared for the total amount. On the other hand, the items which were requested for collection by customers as well as by the correspondents are totaled and a Transfer Dempyo is prepared for the amount. To be more specific, let us assume that the Yasuda Bank in Tokyo has presented the following items for collection at the Clearing House:

a. Items which are deposited in current accounts of customers:

(1) Two checks payable by the Teikoku Bank, amounting to -----	15,000. yen
(2) Three acceptance checks payable by the Mitsubishi Bank, amounting to -----	20,000. "
(3) One deposit certificate payable by the Sumitomo Bank, amounting to -----	5,000. "
(4) 12 interest coupons on Government Bonds payable by the Bank of Japan, amount- ing to -----	250. "
(5) Three postal money orders payable by the post office department, amounting to ..	500. "
Total -----	40,750. "

b. Other items:

(1) One commercial bill discounted (Bills Discounted #100) payable by Mitsui & Co. at the Sanwa Bank -----	15,000. yen
(2) Two Bills of exchange received for collec- tion, #2 and #3, from the branch office in Osaka and payable by Yamata & Co. at the Teikoku Bank -----	6,000. "
(3) One bill of exchange, drawn and payable by the Sumitomo Bank to the Yasuda Bank (Loan on Bill #5) -----	10,000. "
(4) One bill of exchange (Call loan #12) drawn by the Sanwa Bank, payable at demand to the Yasuda Bank -----	15,000. "
Total -----	46,000. "

For the group *a* items, the Yasuda Bank will make the following Cash Payment Dempyo, indicating that the total amount has been deposited with the Bank of Japan:

PAYMENT DEMPYO		
	Date	
<i>Account and particulars</i>		<i>Amount</i>
Deposit with the Bank of Japan: Items presented for collection at the Clearing House ---		40,750. yen

In the above *dempyo*, the *deposit with the Bank of Japan* is the name of account. As for the items in *Group b.*, the Yasuda Bank will make the following Transfer Dempyo, indicating that the total amount has been deposited with the Bank of Japan:

TRANSFER DEMPYO ¹			
		Date	
<i>Debit side</i>		<i>Credit side</i>	
<i>Accounts and particulars</i>	<i>Amount</i>	<i>Accounts and particulars</i>	<i>Amount</i>
Bills Discounted:		Deposit with the Bank of	
#100, Mitsui & Co.	15,000.	Japan:—	
Osaka Branch:		Items Presented for	
Bills for Collection		collection at the Clear-	
#2 and #3 -----	6,000.	ing House -----	46,000.
Loan on Bill:			
#5, Sumitomo Bank -	10,000.		
Call Loan:			
#12, Sanwa Bank - -	15,000.		
	46,000.		46,000.

3. Procedure of clearance at the clearing house

When clearing hour comes, the representatives of all member banks gather together at the Clearing House and distribute the items for collection to each bank. Each representative then prepares a Clearing Balance Sheet (KOKAN SASHIHIKI-HYO), debiting the total amount of items received under the name of each member bank. The credit side of the Clearing Balance Sheet has already been recorded by each representative at his own bank before he arrives at the clearing house.² The representative of each bank then calculates the balance from the Clearing Balance Sheet and prepares the Clearing Balance Slip (KOKAN SHAGAKU HYO) and submits it to the clerk of the Clearing House.

¹ A separate Transfer Dempyo may be prepared for each of the debit accounts.
² See paragraph 2, Preparation for Clearing.

The Clearing Balance Slip shows the name of the bank; date; the total number of debit items and the amount; the total number of credit items and amount; and the difference between the debit and the credit amount. The clerk of the Clearing House then prepares the *Total Clearing Balance Sheet* of all member banks. This sheet shows the debit or the credit clearing balance of all member banks and its total debit and the total credit amount should always be equal. Otherwise, it means that one of the member banks has made a mistake in the clearing operation.

Assuming in the above clearing operation, the Yasuda Bank has a debit balance of 25,000. yen on its Clearing Balance Slip (KOKAN SHAGAKU HYO), this is an indication that the Yasuda Bank owes that much to other member banks who have credit balances; and the amount will be deducted from the Current Account of the Yasuda Bank with the Bank of Japan. On the other hand, if the result of clearing shows a credit balance of 25,000. yen on the Clearing Balance Slip of the Yasuda Bank, it means that member banks who have the debit balances owe 25,000. yen to the Yasuda Bank, and the Current Account of the Yasuda Bank with the Bank of Japan will be increased by that amount. Thus, all the clearing balances of member banks are settled through their Current Account with the Bank of Japan.

4. Method of handling items received from the clearing house

If, for instance, the Yasuda Bank in Tokyo received the following items from the member banks at the clearing house:

- a. Three checks #10, 11, 12, drawn by the customer Yamada, received from the Mitsubishi Bank ----- 6,000. yen
- b. Bank draft #8, drawn by the Yasuda Bank in Osaka and received from the Teikoku Bank.. 7,000. "
- c. A promissory note #5, drawn by the customer Yamada, payable to Matsumoto and received from the Sanwa Bank ----- 10,000. "
- d. A bill for collection, payable by customer Kato and received from the Sumitomo Bank----- 9,000. "

the Yasuda Bank then makes the following Transfer Dempyo, and, regarding items *c* and *d* the customers are notified of the deduction of the amounts from their current accounts with the bank:

TRANSFER DEMPYO

		<i>Date</i>	
<i>Debit side</i>		<i>Credit side</i>	
<i>Accounts and particulars</i>	<i>Amount</i>	<i>Accounts and particulars</i>	<i>Amount</i>
Deposit with the Bank of Japan:		Osaka Branch Office:	
Items for payment received from the Clearing House --	32,000.	Draft #8, paid through Clearing House -----	7,000
		Current Account:	
		Yamada, check #10, 11 and 12, paid through Clearing House -----	6,000.
		Yamada, Promissory note #5, paid through Clearing House -----	10,000.
		Kato, Bill for collection paid through Clearing House ---	9,000.
	32,000.		32,000.

X. METHODS OF CREDIT INVESTIGATION

A. OVERDRAFT LOANS

As a rule the overdraft is regarded less profitable from the standpoint of a loaning bank than other types of loans. This privilege is granted to a limited number of customers whose credit standings are unquestionable. The Japanese methods of credit investigation are similar in many respects to those used in this country. The so-called THREE C principle; that is the character, the capacity, and the capital of the borrower are the basis of the credit rating. A stronger emphasis is placed on the character and capacity of the borrower than his capital. The Japanese banks as a general rule do not extend the overdraft privilege to a new customer. A person who applies for a Current Account is well investigated before he is allowed to open an account with the bank. When a customer applies for an overdraft loan, the bank will naturally be in a position to judge whether or not such a privilege should be granted. The biographical background, the personality, the character, and the business ability of the applicant are considered. When the applicant is a legal person, the backgrounds, characters and the abilities of the directors of the corporation, the position of the corporation among a group doing similar business, and its earning power are well investigated and studied before the overdraft privilege is granted. These studies are known as the character side of the credit studies (JINTEKI SHINYO CHYOSA). On the other hand, the financial side of the credit investigation (BUTTEKI SHINYO CHYOSA) is by no means less important. Willingness alone cannot, in many cases, fulfill monetary obligations. Analysis and study of the financial side of the credit studies, require technical knowledge and this task is performed by the Credit Analysis Division.

Usually Japanese banks have a policy designating what credit rating is to be given to a particular security when the bank is asked to make an Overdraft Loan on it. The credit rating on each of the securities is based on the numerous factors concerning the corporation which issued the securities, the provisions contained in the securities, the fluctuation of the market price of the securities, and the like. All investigation and credit ratings on each of the securities on which the bank may be asked to make a loan are done at the head office of the bank and passed on to the branch office and to their agencies for use as a guide in their loan operations. Another point

of importance is that the bank should know for what purpose the customer wants the loan and for how long. From the standpoint of a loaning bank, the overdraft loan should have the characteristics of rapid turnover; that is, it should make the loan at the end of each month when the general payment period comes and require the customer to repay the loan at the beginning of the following month when the customer has, in turn, collected the loans due him.

B. COMMERCIAL BILLS DISCOUNTED

The important points to be considered in the selection of commercial bills are safety and liquidity. The bills discounted at banks are in the majority unsecured. Therefore, the characters, the capacities, and the capital of the applicant as well as the persons involved in the transactions should be carefully studied before the credit is extended. From the standpoint of weighing the above three elements in the extension of this type of credit, the Japanese banks generally stress the capital side of the borrower and other parties involved in the bill rather than the character or capacity.

The average current account balance of the applicant with the bank, the names, number, and reputation of the persons involved in the bills, their credit ratings according to the Commercial Credit Bureau (SHOGYO KOSHIN SHO), are considered. Whether or not the bills have been accepted for the payment by the payers are other important factors which require careful consideration before the bills are discounted. The amount of discount to be allowed each customer differs according to the credit rating of the customer, and banks usually conduct their own credit investigations in addition to making use of the information supplied by Commercial Credit Bureaus. From the standpoint of the discounting bank, the first and the most important consideration is the credit standing of the applicant. Discounting a bill means lending money to a customer against the claim the customer possesses on the bill. Therefore, when a bill is about to be discounted, the customer transfers his claim to the bank by an endorsement of the bill. If a bill is dishonoured at maturity, the applicant has to pay the amount to the bank. The second important consideration, from the standpoint of the bank, is the credit standing of the payer. The good credit standing of the payer will be a guarantee against unexpected financial loss on the part of the applicant after the bill has been discounted. The good credit standing of the payer provides safety, not only to the discounting bank, but also to the applicant. Therefore, when a discounting bank finds a customer who deals with a person whose credit standing is doubtful, it is the duty of the bank to warn the customer of the need for caution in trading with such a person.

Another important consideration from the standpoint of the discounting bank is that a bank prefers a bill of exchange over a two name promissory note. Furthermore the discounting bank itself prefers a bill which has more than one endorser. This is due, apparently, to the fact that all persons involved in the bill will be responsible for the settlement of the bill if the bill is dishonoured.

C. LOANS ON BILLS

The loans on bills are an accommodation loan, made generally for the purpose of undertaking a new commercial project or to expand an already existing project. The credit risks in this loan are much greater than that of the loans on commercial bills as the repayment of this loan depends largely upon the success or failure of the new venture. The loaning bank, therefore, requires special caution and study before the loan is given. Needless to say, Japanese banks made a thorough study not only of the character, the capacity, and the capital of the borrower but also matters which are expressed in the following questions:

1. How is the borrower going to use the money and is it going to be used in a speculative venture?
2. Is the maturity of the loan too long? Will the borrower be able to repay the money as contracted?
3. Is the project on which the money is to be used productive and profitable?
4. Does the loan have a good collateral? Is it a good kind? Is it sufficient? What is the price movement of the security?

It is the general practice of Japanese banks not to lend money on bills without security, except in cases where the loan is guaranteed by the high credit standing of a dependable person or corporation.

D. COLLATERAL AGAINST LOANS

1. Rules governing the selection of collateral

In the foregoing discussion, the importance of the THREE C principle as a basis for granting bank loans and the requirements for collateral to insure the repayment of the loan have been emphasized. From the standpoint of a loaning bank, it is important to consider whether the collateral in question is suitable and adequate for the purpose for which it is submitted to the lender. Accordingly, the Japanese banks usually have set rules as to the preferability of a collateral for a given loan. The basic rules which the Japanese banks follow for the selection of collateral are enumerated according to their order of importance as follows:

1. The collateral must be readily marketable.
2. The collateral must require a minimum of attention and expense for its safekeeping.
3. The collateral must have a minimum of price fluctuation.

On the basis of the above rules, the kinds of collateral which the Japanese banks prefer most are the government bonds, corporate bonds and stocks. Commodities come second on the preferred list and the real estate properties come last.

2. Securities (YUKA SHOKEN)

a. Kinds of securities. A Japanese authority on bank accounting named HIROSHI MURAKACHI defines security as "a certificate which indicates a definite sum of monetary claim or claims on cargo and like material which has a monetary value and which is freely negotiable either by endorsement or by other methods." In order to simplify the presentation of the kinds of security (YUKA SHOKEN), the following table is presented:

- (1) Certificate of Real Right (BUKKEN TEKI SHOKEN):
 - (a) Bill of Lading (FUNANI SHOKEN).
 - (b) Cargo Exchange Certificate (KAMOTSU HIKIKAE SHO).
 - (c) Warehouse Certificate (SOKO SHOKEN):
 1. Warehouse Certificate of Receipt (AZUKARI SHO).
 2. Warehouse Collateral Certificate (SHICHIIRE SHOKEN).
 3. Warehouse Goods Certificate (KURANI SHOKEN).
- (2) Certificate of Obligation (SAIKEN TEKI SHOKEN):
 - (a) Certificate which substitutes for Currency (KAHEI NO DAIYO-O NASU MONO):
 1. Checks (KOGITTE).
 2. Bills (TEGATA).
 3. Convertible Paper Money (TAKAN-KEN).
 - (b) Certificates which do not substitute for Currency (KAHEI NO DAIYO-O NASAZARU MONO):
 1. Obligations Issued by Government Authorities (KOSAI SHOSHO):
 - (a) National Government Obligations (KOKU SAI):
 - (1) Government Bonds (KOSAI SHOSHO).
 - (2) Treasury Certificate (KOKKO SAIKEN).
 - (3) Rice Bill (BEIKOKU SHOKEN).
 - (4) Silk Bill (KIITO SHOKEN).
 - (5) Ministry of Finance Bill (OKURA-SHO SHOKEN).

(b) Local (Prefectural and Municipal) Bonds
(CHIHOSAI).

2. Corporation Bonds (SHASAI KEN).

(3) Certificate of Ownership of Corporation (SHAIN-KEN
TEKI SHOKEN):

Stocks (KABU KEN).

b. Government bonds. Japanese Government bonds or national bonds are generally issued in "payable to bearer" form (MUKIMEI SHIKI). This kind of bond is regarded by law as movable property, and the holder has legal claims to it¹ and no endorsement, or other legal procedure is necessary for its transfer. When a borrower presents national bonds as collateral, he is required to submit a certificate of collateral deposit to the lending bank. There is another type of government bond, the registered national bond, which is payable to a specific person and requires special registration showing the establishment of SHIKKEN on the security by the lender. This is done by presenting a written statement of the intention to transfer to a dealer of national bonds with the signature and seal of the lender and the borrower. Thus the transfer of registered national bonds is subject to the National Bond Law rather than the regulations relating to the establishment of collateral in the Japanese Civil Code. The method of establishing SHIKKEN on a registered municipal bond is subject to the rules and the regulations provided in the Japanese Civil Code. The lender of the money on the bond must notify the issuing organization of the establishment of SHIKKEN in a documentary form with the date of establishment, or obtain permission from the same if it is required.

c. Corporate bonds. There are two types of corporate bonds, one of which is a bond issued by ordinary commercial corporations, subject to the rules and regulations of the Japanese Commercial Code, the other of which is a bond issued under special bank laws, such as laws relating to the issue of bonds by the Hypothec Bank of Japan and the Industrial Bank of Japan. The former is commonly known as SHASAI while the latter is known as SAIKEN. The SHASAI may either be secured, guaranteed or unsecured. When the issue of SHASAI is secured, it is done through an Acceptance Company (JUDAKU KAISHA) after a trust agreement has been made between the issuing corporation and the Acceptance Company. The Acceptance Company then holds the claim on the mortgage or the collateral on behalf of all the bond (SHASAI) holders. The SHASAI is usually issued in a bearer form, but when the SHASAI is payable to a specified person, the lending bank must establish SHIKKEN on the bonds by registering them

¹ Japanese Civil Code, Article 178.

in the bondholder's Ledger Book of the issuing corporation, and the name of the lending bank must be recorded on the bond.¹

Corporation stocks are usually issued payable to a specified person. The Japanese Commercial Code, however, provides that when the subscription on a stock is fully paid, the owner of the stock can request the issuing corporation to have the stock changed to a bearer form.² As is true in the United States, Japanese corporations issue preferred stock (YUSEN KABU) as well as common stocks (FUTSU KABU). When the corporate stocks are offered as collateral for a loan, the lending bank examines the nature of the stock, the provisions contained in them, and the credit standing of the issuing corporation. The general practices of Japanese banks indicate that the amount of loan on stocks usually run between 60 percent to 70 percent of the market price of the collateral stocks. When the lending bank finds that collateral is insufficient for a loan after a loan has been made, the borrower will be asked to deposit additional collateral. As to the transferring of claims on the collateral stocks to the lending bank, the Japanese Civil Code specifically provides that even when the stocks are registered in a specific person's name, the SHIKKEN on the stocks by the lender is to be regarded as established when the original owner of the stocks passes the stocks over to the lending bank.³ However, the Japanese Supreme Court has ruled that in order to establish the lending bank's claim for a dividend on the stocks, the lending bank is required to notify the issuing corporation of the fact that the ownership of the stocks has been transferred and obtain this acknowledgment.⁴ The general practice followed in the transfer of corporate stocks from the borrower to the lender requires the borrower to submit a power-of-attorney (ININJO) and an agreement of collateral deposit (SHICHIIRE SHODAKU SHO) to the lending bank.

3. Merchandise

From the standpoint of bank collateral, merchandise is less preferable than securities, due to the obvious reason that no bank employees are expected to be an expert as to the grades, qualities, and the price fluctuations of various commodities. Furthermore, it involves cost in handling and safe-keeping, and may not be readily marketable as in the case of securities. However, when a bank finds it necessary to take merchandise as collateral, it examines carefully the credit standing of the warehouse which holds the

¹ Japanese Commercial Code, Article 307.

² Japanese Commercial Code, Article 227.

³ Japanese Civil Code, Article 364, paragraph 2.

⁴ Japanese Supreme Court, 15 November 1928.

merchandise. As a general rule, banks prefer the following kinds of merchandise:

a. Raw material, such as rice, wheat, cotton, wool, gold or silk cocoon, etc. are easier to dispose of when necessary. Furthermore, their market price can be ascertained easily as compared with manufactured goods. Goods which are semi-processed, such as cotton, woolen and silk threads, sugar, flour and rayon, are also preferred over manufactured goods.

b. Merchandise which is traded on the commodity market, such as rice, cotton, cotton threads, silk threads, sugar and rayon.

c. Merchandise which has a stable price.

d. Merchandise which is not perishable and not subject to deterioration.

e. Merchandise which is not behind the seasonal demand.

After careful consideration on the foregoing points, the bank decides the amount of money to be loaned on the merchandise in question. When the commodity is listed on the commodity market, the commodity market price will be used as the basis of deciding the loanable amount, otherwise a commodity expert has to be employed to evaluate the merchandise in question. Credit extension by Japanese banks on merchandise varies from 60 to 70 percent of the market price. When merchandise is secured as collateral, it is regarded as movable property. The Japanese Civil Code provides that the person in possession of SHIKKEN on movable property must be in possession of the same in order to exercise it over a third party. However, an agent can keep the movable property for his principal who possesses the SHIKKEN on the property.¹ Thus, a warehouse operator can keep the merchandise for a lending bank who has a SHIKKEN on the commodity.

4. Warehouse certificates

There are three different kinds of warehouse certificates; the Certificate of Warehouse Receipt (AZUKARI SHO), the Collateral Certificate (SHICHIIRE SHOKEN), and the Warehouse Goods Certificate (KURANI SHOKEN). The Certificate of Warehouse Receipt and the Collateral Certificate are issued by the warehouse operator under a so-called Double Certificate System (FUKUKEN SEI). Under this system, both certificates represent the same commodity in the warehouse. The Certificate of Warehouse Receipt is issued to the owner of the merchandise to enable him to sell the merchandise to another businessman, while the Collateral Certificate is issued to enable him to borrow money from a bank. When a bank lends money to the owner of merchandise in a ware-

¹ Japanese Civil Code, Articles 352 and 181.

house, the owner is required to endorse the Collateral Certificate showing the amount of money borrowed. The bank sends the Collateral Certificate to the warehouse operator and he must record the loan transaction on the warehouse Ledger Book. The warehouse operator returns the Collateral Certificate to the bank. The lending bank can then claim the SHIKKEN on the Collateral Certificate. On the other hand, the borrower is required to record the amount of money borrowed from the bank, its interest rate, and maturity of the loan on the Certificate of Warehouse Receipt (AZUKARI SHO) with the borrower's signature and seal. The reason for this recording is to protect an innocent purchaser of the Certificate of Warehouse Receipt. The warehouse operator, on the other hand, will not give the merchandise in custody to anyone who does not present both the Certificate of Warehouse Receipt and the Warehouse Collateral Certificate. Thus, the lending bank will be well protected.

There is in wide use, however, a Single Certificate System under which a Warehouse Goods Certificate (KURANI SHOKEN), issued by the warehouse operator, is used in place of the aforementioned documents. The Warehouse Goods Certificate (KURANI SHOKEN) is issued by the warehouse operator when so requested by the customer.¹ This certificate functions in a way similar to that of the Cargo Exchange Certificate (KAMOTSU HIKIKAE SHO), and the rules and regulations regarding the Certificate of Warehouse Receipt are also applied² to this certificate. Furthermore, a lending bank can easily establish SHIKKEN on the certificate. The Warehouse Goods Certificate contains a description of the goods in custody by the warehouse; such as, the name, the quantity, the quality, and the method of packing, the name and trade mark of the depositor, the place of storage, the charge for storage, the period of storage, the amount and period of insurance, the name and trade mark of the insurance company, and the date and place of the certificate issued. The owner of the goods endorses the certificate and transfers it to the lending bank when the bank lends money on the goods. Thus, the bank will have SHIKKEN on the goods. The bank in turn notifies the warehouse operator of the fact that SHIKKEN has been established on the goods. When the borrower from the bank wishes to withdraw a part of the merchandise, he makes a request to the bank accompanied by a part payment of the loan. The bank requests the warehouse company to give part of the merchandise to the borrower. A prearrangement is usually in effect between the lending

¹ Japanese Commercial Code, Article 627, paragraph 1.

² Japanese Commercial Code, Article 627, paragraph 2.

bank and the warehouse operator providing that the borrower of the loan may withdraw part of the merchandise from the warehouse from time to time. This is usually done when the bank establishes SHIKKEN on the warehouse goods certificate by signing a part withdrawal contract (UCHIDASHI KEIYAKU) between the bank and the warehouse operator. When part of the merchandise is withdrawn by the borrower, the bank makes a record of the name and the quantity of the merchandise withdrawn on the warehouse goods certificate and the warehouse operator does the same. The money received by the bank from the borrower for the payment of the commodity partly withdrawn will either be kept in the Special Deposits Account (BETSUDAN YOKIN KANJO) until the loan is fully paid, or the amount is deducted from the loan account. In either case, the borrower is entitled to a refund of the interest on the amount partly paid from the day the part payment is made to the day when the loan matures. In case the part payment is kept in the Special Deposit Account, there is a danger that the bank may lose claim on the deposit if the borrower should become bankrupt. Therefore, the lending bank usually deducts the part payment from the loan account as a part settlement.

5. Real estate or immovable property mortgage (FUDOSAN TAMPO)

The immovable property in this discussion refers to land and buildings. As a rule, most of the Japanese commercial banks do not prefer real estate mortgage due to the obvious reason that real estate is difficult to dispose of when the borrower defaults on payment of a loan. Furthermore, real estate requires expenditure for its maintenance, and the turnover of loans on real estate is slower than those made on commercial papers. Nevertheless, there are cases which necessitate the acceptance of real estate as a mortgage, and in such cases, the banks usually apply the following rules :

a. Land. (1) Determine whether there are other mortgages on the land. It is also important to investigate whether there are any tenant rights or any other rights established on the land.

(2) Transportation facilities to the location of the land.

(3) The possibility of future development of the land.

(4) The utility value of the land.

(5) Present and possible future income from the land.

b. Building. (1) Determine whether there is any other mortgage already established on the building, and investigate the character and credit standing of the person who occupies the building.

(2) The date of the building.

(3) Location of the building.

(4) Structure of the building.

(5) Kind of building; residential, commercial, or factory.

(6) The amount of space occupied by the building.

When a bank secures real estate as a mortgage, the lending bank may establish SHIKKEN on the real estate either by establishing TEITO KEN (Mortgage Right) or by NETEITO KEN.¹ According to the Japanese Civil Code, the TEITO KEN is a lender's preferred real right over others on the repayment of a loan on the real estate which has been submitted by the borrower as a mortgage without changing the possession. Thus, the mortgagor possesses the real estate, uses it, and receives the income from it. The TEITO KEN can also be established on tenant rights as well as on other rights on the land. In order to have the right on the mortgage effective against a third party, the TEITO contract should be made out and registered in an attested form. The lending bank, on the other hand, may establish NETEITO¹ on the real estate. If a maximum amount of loan is established on the mortgage when the contract is signed, the borrower may borrow any amount and any number of times within the maximum limit. The difference between the TEITO and the NETEITO is that in the case of the former the mortgage is established for a definite sum borrowed and the lending bank's SHIKKEN on the mortgage will be terminated when the debt is paid by the borrower, unless there is a special provision to the contrary. In the case of NETEITO, however, a maximum amount of loan is set and the borrower may borrow any amount for any number of times providing the maximum amount borrowed does not exceed the amount contracted for. He can pay back in part or in full at any time during the period of the NETEITO contract. The NETEITO contract may be made for a definite or indefinite period. Japanese banks commonly make the NETEITO contract effective for an indefinite period with the insertion of a clause enabling the lending bank to cancel the contract whenever it so desires. When a mortgage is based on the NETEITO contract, it should be so stated at the time of registration for the establishment of a claim on the mortgage. Otherwise, it will be regarded as a TEITO contract, and the lending bank will have claim on the mortgage only to the extent of the loan outstanding at the time of registration of the contract. If a mortgage is on a building, an appropriate amount of fire insurance is usually carried on the building for the protection of the lending bank.

¹ Refer to the explanation of NETEITO KEIYAKU in Overdraft, p. 41.

XI. WARTIME CHANGES

A. CHANGES IN THE BANKING STRUCTURE

The measures the Japanese government took up to 1941 which related to financial organizations had two distinct purposes; one was to control the financing of capital funds and the other to control the financing of working capital to industries. The Temporary Funds Adjustment Law of 1937 was a device aimed at preventing the flow of capital funds to nonstrategic industries and to provide adequate funds to the industries engaged in the national defense. On the other hand the Decree on the Application of Funds of Banks, etc. of October 1940, which became effective 1 January 1941 was in reality an order calling for the compulsory financing of strategic industries and restricting banks from making loans for working capital to nonstrategic industries beyond designated limitations.

Other steps taken by the government were chiefly directed toward the raising of adequate funds for armament industries and the absorption of government bonds. To achieve these aims, it took various measures; such as, the simplification of banking structure, creation of new financial organs and controlling bodies, and a more effective system of financing armament industries.

1. Bank amalgamations

The various measures taken by the Japanese Government up to the end of 1941 and the subsequent establishment of the National Financial Control Association completed the legal basis for the total control of every activity of the financial organizations. The structural changes which took place in these institutions indicate that the government made great strides toward their simplification.

a. Amalgamation of ordinary banks. When the Ordinary Bank Control Association was organized in May 1942, there were 13 large city banks classified in this group. Among them were the 7 largest banks; namely, Sanwa, Yasuda, Sumitomo, First, Mitsubishi, Mitsui, and One Hundred. On 30 June 1941, the principal assets and liabilities of these seven banks were:

	(In Million Yen)			
	<i>Total assets</i>	<i>Deposits</i>	<i>Discounts and loans</i>	<i>Security holdings</i>
Sanwa -----	3,034	2,793	1,499	1,195
Yasuda -----	2,937	2,628	1,551	1,047
Sumitomo -----	2,927	2,725	1,787	840
First -----	2,564	2,342	1,475	808
Mitsubishi -----	2,106	1,879	1,051	699
Mitsui -----	2,031	1,773	1,122	577
One Hundred -----	1,623	1,518	854	517
	17,222	15,658	9,339	5,683

Besides the above big 7, the other larger city banks in Japan show their total assets, deposits, discounts and loans and security holdings as of 30 June 1941 as follows:

	(In Million Yen)			
	<i>Total assets</i>	<i>Deposits</i>	<i>Discounts and loans</i>	<i>Security holdings</i>
Nomura Bank -----	910	856	589	167
15th Bank -----	445	303	196	178
Kobe Bank -----	454	417	202	186

Under the auspices of the National Financial Control Association, the First Bank, the Mitsui Bank and the Fifteenth Bank were merged into a new bank called the Teikoku Ginko (Imperial Bank); the One Hundred Bank was merged into the Mitsubishi Bank; the Showa Bank, the Japan Day and Night Bank, and the Third Bank became part of the Yasuda Bank. Furthermore, the Nomura Trust Company was merged into the Nomura Bank.

The May, 1944 issue of the *Nihon Hyoron* shows the principal assets and liabilities of the big five banks and all banks except the Bank of Japan as follows:

Table Showing Position of the Big 5
(In Million Yen)

	<i>Deposits End of March 1944</i>	<i>Loans 28 February 1944</i>	<i>Securities 28 February 1944</i>
Teikoku -----	6,330	5,016	2,483
Yasuda -----	5,728	3,300	2,419
Mitsubishi -----	5,629	2,979	2,315
Sanwa -----	4,820	2,861	1,837
Sumitomo -----	4,745	3,024	1,745
	27,252	17,180	10,799

All Banks (Ordinary, Savings, and Special) except
Bank of Japan --- 60,625 35,935 34,710

The amalgamation of banks extended also into the sphere of the local banks where the government was interested in limiting their numbers to one or two for each prefecture. In 1937 there were 377 Ordinary Banks which included these local banks. By May 1942, when the National Financial Control Association was organized, this number had decreased to 163, of which thirteen were ordinary banks and 150 were local banks. A further reduction had taken place by April 1944, for there were then only 88 ordinary banks in all, including the local banks. In order to offset the disadvantage caused by these drastic mergers, which left ordinary and local bank facilities less available to the Japanese public, the government issued an ordinance on 20 May 1943 authorizing these banks to apply for permission to create savings and trust departments or incorporate other savings banks and trust companies as their subsidiaries. This is obviously a significant change in the traditional banking structure of Japan. Many ordinary and local banks took on the additional functions of savings banks and trust companies. They began to operate on 1 August 1943.

b. Amalgamation of Savings Banks. At the end of December 1941 the savings banks held 5,542 million yen or 11.6% of the total deposits of all banks, excluding the Bank of Japan. However, a comparison between the savings banks and Postal Savings System shows that the former held 35.2% of the total 15,511 million yen held by these two institutions.

The position of the savings banks' deposits in relation to those of other banks and the postal savings system in 1942 to 1944 is shown in the following tables :

<i>Deposits of all Banks</i>		
(In Million Yen)		
	<i>End of February 1943</i>	<i>End of February 1944</i>
Special Banks ¹ -----	3,571	4,541
Ordinary Banks ² -----	34,030	43,952
Savings Banks -----	7,790	9,011
	45,391	57,504

<i>Comparison Between the Savings Banks and Postal Savings</i>						
(In Million Yen)						
		<i>Savings banks</i>		<i>Postal savings</i>		<i>Total</i>
		<i>Percent</i>		<i>Percent</i>		
		<i>to</i>		<i>to</i>		
	<i>Deposits</i>	<i>Total</i>		<i>Deposits</i>	<i>Total</i>	<i>Total Percent</i>
2/28/42 ----	5,761	37.7		9,522	62.3	15,283 100
2/28/43 ----	7,790	37.8		12,795	62.2	20,585 100

The above tables show that the savings banks held 17 percent at

¹ Bank of Japan figures are not included.
² Local banks' figures are included.

the end of February 1943, and 16 percent at the end of February 1944 of the deposits of all banks except the Bank of Japan. The position of the Savings Banks in relation to the Postal Savings System shows that, at the end of February 1942, the Savings Banks held 37.7 percent of the total, while at the end of February 1943, they held 37.8 percent of the total deposits of both institutions. When these ratios are compared to those of December 1941, the deposits with the savings banks show a substantial increase in contrast to other banks and the Postal Savings System.

In 1937, there were 72 Savings Banks in Japan. At the time when the Savings Banks Control Association was organized, this number was reduced to 69. By April 1944 this figure had dropped to 29. Savings banks, as in the case of Ordinary Banks were also dominated by the powerful few. Among the 29 Savings Banks, the Fudo Savings Bank, the Tokyo Savings Bank, the Yasuda Savings Bank and the Naikoku Savings Bank in Tokyo city; the Osaka Savings Bank, the Nippon Mutual Savings Bank and the Settsu Savings Bank in Osaka and the Nippon Savings Bank in Nagoya were the largest ones.

Evidently the Japanese government had been considering the possibility of abolishing the savings banks, for on 4 January 1945, the Minister of Finance announced that the government decided to retain the savings banks in view of their usefulness in absorbing small funds. It was also revealed that "an agreement was reached regarding the establishment of one large savings organ through the merging of the large savings banks in the respective cities . . ." The following day, the 9 savings banks in Tokyo, Osaka and Nagoya, mentioned above, decided to merge according to the agreement. The newly amalgamated savings bank will be called the Japan Savings Bank (NIPPON CHOCHIKU GINKO) and its deposits will amount to nearly nine billion yen, which would be the greatest total deposits held by any single Japanese financial institution. As to the government policy relating to the savings banks in other areas, all savings banks are to merge either into ordinary or local banks or merge within themselves, with the ultimate aim of having only one large savings bank in Japan operating with as many branches as necessary throughout the country.

c. Bank reorganization. (1) *The Bank of Japan.* A new law promulgated on 4 February became effective on 1 May 1942. The new law modified basically the corporate structure of the bank, which was defined as a special institution "administered exclusively for the accomplishment of national aims." The capital of the bank was raised from 60 million yen to 100 million yen and the law authorized the Japanese government to become the major-

ity shareholder by investing 55 million yen in the bank. No provisions were made in the law as to the shareholders' meeting or their right to nominate officials and pass upon important matters. The rights of the former shareholders on matters of management and control of the bank were completely divested and, in fact, they were reduced to the position of preferred shareholders. The functions of policy making were definitely vested in the Minister of Finance, who was empowered to issue instructions on the management of the bank and whenever necessary and essential for the attainment of national objectives, he is empowered to order the bank to perform necessary operations and to amend its status and regulations. In short the new law made the bank a complete state organ in name as well as in fact. The staff of the bank was given the status of personnel engaged in a public function. The size of the staff was determined by Imperial decree. One of the notable changes undertaken by the Bank of Japan, after its reorganization, is its complete control over the foreign exchange business which was formerly carried on by the Yokohama Specie Bank. It also undertook a systematic coordination of the foreign activities of the central banking institutions in the Japanese dominated countries; namely, the Central Bank of Manchu, Bank of Mongolia, Federal Reserve Bank of China, Central Reserve Bank of China, Banque de l'Indochine, Central Bank of Thailand and Central Bank of Burma.

In the middle of April, 1945 it was revealed that "In an effort to simplify and strengthen its administrative and business functions" the Bank of Japan undertook its internal reorganization. The former one Office, three Departments and eleven Bureaus were reduced to one Office, three Departments and eight Bureaus; namely the Office of the Secretary (HISHO SHITSU); Personnel Department (JINJI BU), General Affairs Department (SOMU BU), and research Department (CHOSA BU); and the Bank Notes Issue Bureau (HAKKEN KYOKU),¹ Business Bureau (EIGYO KYOKU), National Treasury Bureau (KOKKO KYOKU), National Bonds Bureau (KOKUSAI KYOKU), Foreign Affairs Bureau (GAJI KYOKU), Funds Regulation Bureau (SHIKIN CHOSEI KYOKU), Documents Bureau (BUNSHO KYOKU) and Control Bureau (TOSEI KYOKU). It is revealed that the Control Bureau mentioned herein is the new creation taking the place of the old Investigation Bureau (KOSA KYOKU) and that the new Control Bureau will take over the functions of financial control of all financial organizations which had been the functions of the

¹ The Japanese word KYOKU in this case is translated as Bureau, while in p. 21 the word KA is also translated as Bureau. This is due to the difference in the organizational structure of the Bank of Japan and other banks.

National Financial Control Association (ZENKOKU KINYU TOSEI KAI). Thus the Bank of Japan will be the final authority in matters relating to financial control and the policy of future financial control will be pushed under the united leadership of the Finance Minister, the Bank of Japan and the big metropolitan banks. The National Financial Control Association, as a result of this new development, will act as a general liaison machinery for the various financial organizations.

(2) *The Yokohama Specie Bank*. It was reported that this bank undertook a complete reorganization of its head office in July 1943. This reorganization is attributed to the changes which had taken place in the bank's relation with the Bank of Japan and its position in international markets. The bank abolished its Foreign Exchange, Domestic and Foreign Departments and set up four new departments; General Affairs, Southern Region Affairs, East Asia Affairs and Foreign Affairs. The General Affairs Department was charged with general planning loans, investments and exchange; the East Asia Affairs Department deals with branches and businesses in Japan, Manchukuo, Mongolia, Northern, Central and Southern China and Hongkong; the Southern Region Affairs Department deals with branches and businesses in Thailand, Indo-China, the Philippines, Java, Sumatra, Celebes, Malaya and Burma; and the Foreign Affairs Department deals in businesses with the other countries. It was also reported that the Bank of Japan took over complete control of the foreign exchange business from the Yokohama Specie Bank in the spring of 1943.

In the early part of April, 1945, however, another internal reorganization seemed to have taken place. The three departments mentioned above; i.e., the East Asia, Southern Region and the Foreign Departments are said to have been abolished and a new Overseas Department (KAIGAI BU) created in their places. The main reason for this change is "to simplify its business operations."

(3) *Mitsubishi Bank*. On 28 March 1944 the main office of the Mitsubishi Bank was also reorganized. Although no detailed information on the reorganization is available, the former system of 10 Departments was abolished and the new six department system was adopted. In the meantime, the Foreign Exchange Department was also abolished and in its place a new Foreign Exchange Bureau was created under the Operating Department.

2. Wartime Finance Bank (SENJI KINYU KINKO)

This bank was created in April 1942 with a capital of 300 million yen, of which 200 million yen was subscribed by the government and 100 million yen by banks. Half of the capital was paid

up at the time of organization and the rest was to be paid in 1944. It was also authorized to issue debentures up to ten times its paid up capital and the government was to guarantee the issues. The government also assumed the responsibility for guaranteeing an annual dividend of 5 percent on the private portion of the paid up capital and if any losses were sustained in the operation, the government was to compensate these losses. The main purposes for organizing this bank were:

1. To finance the vital war industries which for some reasons could not be financed by ordinary financial organizations.
2. To finance the vital war industries in which the public was unwilling to invest.
3. To maintain the stability of the security market.

In the early period of its existence, it more or less devoted itself to the financing of small, new war industries. Later it expanded its activities to many large armament industries. In March 1943 this bank took over the main burden of financing the establishment of and the expansion of the Wooden Ship construction companies. The prevailing information discloses that the amount of outstanding loans made by this bank in October 1942 totaled 400 million yen and that this had increased to 800 million yen at the end of November 1943.

In an article written by the Masaichi Nishizaki, Chief of the Finance Department of the Wartime Finance Bank, published in the May 1944 issue of *Nihon Hyoron* it is noted:

“According to the investigation made by the Toyo Keizai Shimpo, the total capital funds used by the 7 aircraft industries in the first fiscal half year of 1943 amounted to 3,211 million yen. Of this amount, 1,703 million yen were in *Temporary Receipt Funds* (KARIUKE KIN) in which the *Advances* (MAEWADASHI KIN) was included.”

The *Advances* mentioned here are the advances made by the government to the aircraft industries through the Army and Navy. This fund is kept in the Bank of Japan or its agencies.¹

3. The National Financial Control Association

This organization is the central body for controlling all financial organizations in Japan. It was organized by Imperial Ordinance #440 on 17 April 1942 under the authority of Article 18 of the National Mobilization Law. Prior to the formation of this organization, there was the National Financial Consultation Association (ZENKOKU KINYU KYOGI KAI) under which there were many associations, organized according to the type of business engaged

¹ Imperial Ordinance #584, October 9, 1937
Minister of Finance Ordinance #39, July 9, 1941
Minister of Finance Ordinance #44, July 28, 1941

in. These organizations, however, were considered as juridical persons only under the civil law, and the government found it difficult to enforce its policies on them.

At the time the association was organized, the following control associations were under the Control Association According to Types (GYOTAI BETSU TOSEI KAI), which was in turn, under the National Financial Control Association:

	<i>Names</i>	<i>Date established</i>	<i>Numbers</i>
1.	KAN-NO Banks Financial Control Association ¹ -----	5/14/42	6 Banks
2.	Ordinary Banks Control Association --	5/11/42	13 Banks
3.	Local Banks Control Association -----	5/11/42	150 Banks
4.	Savings Banks Control Association --	5/13/42	69 Banks
5.	Trust Companies Control Association -----	5/12/42	21 Companies
6.	Life Insurance Companies Control Association -----	5/14/42	27 Companies
7.	Mutual Financing Companies Control Association -----	5/13/42	160 Companies
8.	Acceptance Companies Control Association -----	5/12/42	8 Companies
9.	Urban Credit Cooperatives (SHIGAI CHI SHINYO KUMIAI) Control Association -----	5/14/42	291 Cooperatives
10.	Credit Cooperatives Control Association (KUMIAI KINYU TOSEI KAI) -----	5/30/42	1 Bank (Chest) and 47 Cooperatives

There were three more main groups under the National Financial Control Association; namely, the group representing the

¹ KAN-NO refers to the NIHON KANGYO GINKO (Hypothec Bank of Japan) and NOKO GINKO (Agriculture and Industrial Bank).

Special Banks, except the Bank of Japan, the Local Financial Consultation Association (Korea, Taiwan, and Karafuto), and the Short Term Funds Cooperative Control (Call Loans and Bill Brokers).

It is believed that the organizational structure of the association has undergone several changes since its formation. Although a complete picture of its present status is not available, it is reported that the Hypothec Bank of Japan after it had taken over the Agriculture and Industrial Banks operating in Aichi, Ibaraki, Okayama, Kanagawa, and Fukushima prefectures, joined the National Financial Control Association. The Ordinary Bank Control Association, which had 13 members when it was formed, was also broken up following the mergers of several large banks. The five big ordinary banks; namely Teikoku, Mitsubishi, Yasuda, Sumitomo, and Sanwa joined the National Financial Control Association. The remaining ordinary banks joined with the local and savings banks and formed the single Bank Control Association.

Article 8, Chapter 3 of the Articles of Association for the National Financial Control Association, relating to the functions of the association and their execution, provides for:

1. Participation in the formulation of the government's plan relating to finance.
2. Instruction and control of financial organs on matters relating to their absorption of savings and the utilization of the same.
3. Hastening the adjustment of the financial organizations.
4. The promotion of efficiency within financial organizations.
5. Hastening the closer collaboration between industries and financial institutions.
6. Conducting research and surveys in matters relating to finance.
7. Undertaking other necessary projects (JIGYO), besides the functions mentioned above, to realize and accomplish the purpose of this organization.

The above provisions indicate the broad and dictatorial powers this association possesses over all financial organizations. As to the utilization of funds by the financial institutions, Provision 4, Article I, Ministry of Finance Order #389 of 2 July 1942 states that the president of the association is empowered to:

“Instruct a financial organization the necessary procedures for handling a transaction when it is engaged in financing a certain industry in cooperation with other financial organizations.”

This provision indicates a new trend of financing war industries

which up to that time was not common. It is believed that until the spring of 1942, the local banks were mainly devoted to the absorption of savings rather than to active participation in the financing of armament industries. In May 1942 the National Financial Control Association raised the allocation of corporate debenture subscriptions for the local banks and directed them to advance funds to the Industrial Bank of Japan, and in March 1944 a local banks' syndicate was formed for the same purpose.

Provision #5 of the Order #389 further empowers the president of the Association to regulate interest rates on deposits, savings deposits and on loans, commissions on bank drafts, collections and other banks' services, and the methods and provisions of making loans, collaterals on loans and insurance premiums. The latest information available on this organization is that in the middle of April 1945, when the Bank of Japan had undergone an administrative reorganization, the controlling function of the all financial organizations which was performed by this organization was delegated to the Control Bureau of the Bank of Japan. As a result of this new development, this association became a general liaison machinery for the various financial institutions.

4. Designation system of financing war industries

Since the organization of the National Financial Control Association, special banks and big ordinary banks have been designated to finance certain armament factories which had been awarded contracts from the military authorities. These factories were authorized to draw bills, known as munitions bills, on the Industrial Bank of Japan. These bills were discounted by the ordinary banks and the rediscount on these bills was granted by the Bank of Japan. The factories that could draw the munitions bills were also designated by the Ministry of Munitions. They numbered one hundred and fifty companies in the beginning. On 25 April 1944, however, an additional 450 concerns were designated and on 29 April banks were designated to finance each of the armament companies. The rules governing this designation system are summarized as follows:

1. One or two banks, either Special or Ordinary, is or are designated to each armament concern, monopolizing the financing of that particular concern.
2. Behind each designated bank, a cooperative group (KYORYOKU DAN) composed of local banks, trust companies, etc., is organized to aid the designated bank in the financing of the armament concern.
3. The relationship between the designated bank and the cooperative group remains anonymous. Both the des-

ignated bank and the cooperative group have a joint responsibility for the financing.

4. The financial transactions between the designated bank and the cooperative group are based on Loans on Deeds (SHOSHO KASHITSUKE).
5. The designated armament concern keeps its deposits in the bank where they had been kept previously, and is not forced to deposit its funds with the designated financing bank.
6. When a special bank and a big ordinary bank are to cooperate in financing an armament concern, the special bank finances the fixed capital and the equipment, etc., necessary for the expansion of the project, and the big city bank finances the working capital.
7. The Bank of Japan guides the entire program of armament financing and the necessary funds are supplied without being limited to the amount of currency issues¹.

On 8 January 1945 a slight modification of the above rules took place. Although the exact text of the modification is not available, it is believed that (5) above has been revised to the effect that banks other than those that are government designated will be prohibited from handling the deposits of armament concerns, with certain exceptions. Also, only armament concerns are eligible to borrow funds from the specially designated banks and other authorized financial institutions; non-strategic investments of the designated banks are prohibited; the employees of the Bank of Japan, of the designated banks and of the National Financial Control Association are designated as government officials in the handling of business under the Funds Regulations and the Munitions Company law. Furthermore, whenever the government deems it necessary, it may order the designated banks to furnish the government with the necessary amount of bond and the interest rates and other stipulations on loans will be fixed by the government.

Under the rules of the designation system, the burden of financing the armament industries rests upon the Bank of Japan, the special banks and the big banks. In other words, it may be said that the whole Japanese banking structure can be classified in two categories; one of banks for industrial financing, and the other of banks for the absorption of savings. The function of industrial financing is delegated to the five big banks: namely, the Teikoku Bank (Imperial Bank), Yasuda Bank, Mitsubishi Bank, Sanwa

¹ At this point it may be interesting to note that a new Law of the Bank of Japan, relating to the Extraordinary Exceptions from Application of the Convertible Bank Note Law, empowered the Bank of Japan to issue bank notes which are not convertible into gold. Thus the bank issued nonconvertible notes of 1, 5, and 10 yen denominations, beginning 14 December 1943, and of 100 yen beginning 20 March 1944.

Bank and the Sumitomo Bank; while the local banks and the other financial organizations devote themselves to the function of absorbing savings, either to support the designated banks in their financing of the armament industries, or to purchase government bonds and other corporate bonds necessary for the financing of the war.

Since the introduction of the Munitions Bills discounting system, the cooperative financing of armament industries, and the designation system, the tendency to over-emphasize the importance of armament industries was parallel by inefficient utilization of funds on the part of the industries. The financial institutions were completely subservient to the armament industries and lacked the authority and the mechanisms for the financial supervision of the industries. This situation was indicated by the pronouncement that the designated banks were to supervise the armament concerns which they finance for the proper and efficient utilization of the funds they borrow.

The effect of the designation system on the Japanese banking structure was that the Bank of Japan, in name and in fact became a government organ, designed to carry out government policy. Furthermore, its leadership among the banks has been strengthened tremendously. This is demonstrated by the fact that its loans to the large city banks have increased enormously in recent years, amounting to over four billion yen in the early part of 1944.

The position and the prestige of the so-called big five banks have also been vastly strengthened. These banks can no longer be regarded as private banks and from the standpoint of financing the armament concerns, they play a far more important role than do many of the so-called special banks. In the May 1944 issue of the *Nihon Hyoron* it is shown that the big five banks held approximately 45 percent of the total deposits, 47 percent of the total loans, and 31 percent of the securities holdings of all banks, except the Bank of Japan.¹

Among the Special Banks and institutions which are concerned primarily with the financing of the armament industries are the Industrial Bank of Japan and the Wartime Finance Bank (SENJI KINYU KINKO). After the five big banks began to take an active part in the financing of the armament industries, the Industrial Bank became less important in that field and it no longer has greater prestige than the five big banks. The Wartime Finance Bank, however, plays an important role in financing the armament industries. By the end of November 1943 its total loans had reached 800 million yen.

The Local Banks (or provincial banks), on the other hand, are

¹ See table on p. 104.

chiefly devoted to the absorption of savings to be used for the purchase of debentures and to making loans to the designated banks. This is clearly borne out by the fact that deposits with the local banks have been increasing steadily since 1943, while the increase of deposits with the big five banks has lagged considerably. The comparative figures of total deposits for 80 Local Banks in 1944 with the 84 Local Banks in 1943 are as follows:

<i>Deposits in Million Yen</i>		
	<i>1944</i>	<i>1943</i>
April -----	529.	218.
May -----	900.	437.
June -----	779.	447.
July -----	790.	10

The increase in deposits with the local banks is said to be due to:

1. The increase in the production of food and the corresponding increase in the farmers' incomes.
2. Increase of industrial activities in provincial towns and in rural areas.
3. Transfer of deposits from city to provincial banks owing to evacuations.
4. Changes in the banking laws of August 1943, permitting the local banks to accept savings deposits and the amalgamation of the savings banks with the ordinary banks. The number of branches of local banks has considerably increased.

5. Establishment of new banks

The introduction of financial supervision of the armament concerns by the designated banks which has been mentioned in the discussion on the Designation System of Financing War Industries, did not bring about satisfactory results. This was revealed in a recent radio broadcast to the effect that the Japanese financial critics are of the opinion that the current inflationary trend is largely due to the inefficient management of munitions funds and the reckless expenditures of some companies. According to the information received in the early part of May 1945, the former Vice Minister of Finance Hideo Matsukuma stated in an article entitled "What We Desire of the New Finance Minister," that efficient management of idle funds and its absorption are the two most important tasks of the Finance Minister.

The steady increase of deposits among the local banks seemed to have created a demand for a better and more effective method of absorbing the idle funds. In the early part of March 1945, it is

¹ Not available.

revealed that the Minister of Finance made a statement to the effect that "In line with the demand of the business world, the Finance Ministry has had under consideration the establishment of a Co-operative Finance Bank, composed of member banks of the Local Banks Control Association."

a. *The Cooperative Finance Bank (KYODO YUSHI GINKO)*. The purpose of organizing this bank is to centralize the use of local banks' excess funds under the supervision of one organ. The excess funds of the local banks are said to be increasing steadily as a result of prosperity in the farm areas¹ and the bank is to use the funds for the purchase of bonds of the Industrial Bank of Japan and other debentures and to make loans to armament industries in cooperation with the designated banks. Although no detailed information regarding the structure of this bank is available, the prevailing information discloses that this bank is organized according to the provisions of the Bank Law and the authorized capital is expected to be 10 million yen. The seventy-seven member banks of the Local Bank Control Association subscribed the capital and Masahiko Wada, president of the Local Bank Control Association, heads the bank. This bank is supposed to have opened for business on the 1st of April, 1945.

b. *The United Funds Bank (SHIKIN TOGO GINKO)*. On 7 April 1945, it is revealed that the organization of another bank called the United Funds Bank has been proposed by the Minister of Finance and the Bank of Japan. The purpose of organizing this new bank is said to be "to effect the unification of all financial organs." The capital of this new bank is 50 million yen, one half of which is paid up. The shares of this bank are to be subscribed by the Bank of Japan, Yokohama Specie Bank, Industrial Bank of Japan, Hypothec Bank of Japan, Bank of Chosen, Bank of Taiwan, Hokkaido Colonial Bank, Cooperative Finance Bank (KYODO YUSHI GINKO), Japan Savings Bank (NIPPON CHOCHIKU GINKO), Teikoku Bank, Central Bank (KINKO) for Agriculture and Forestry, Peoples Bank (KINKO), four big trust companies² and seven other metropolitan banks.³ It is further revealed that this bank, when established, will handle the following business in close cooperation with the Bank of Japan and the government.

(1) It will accept deposits as well as borrow funds from the member banks⁴

¹ See table on p. 115.

² and ³ The exact names of the four big trust companies and the seven other metropolitan banks are not available. However, among the Japanese trust companies, the Mitsui, Sumitomo, Mitsubishi, Sanwa, and the Yasuda trust companies are the leading ones. The seven other metropolitan banks may mean the Yasuda, Mitsubishi, Sanwa, Sumitomo, Nomura, Kobe, and Nagoya banks.

⁴ "Member banks" may refer to those banks which subscribe the shares of the United Funds Bank.

(2) It will make loans to munitions financing institutions and other organs

(3) It will advance funds to special juridical corporations and organizations which undertake work for national benefit

(4) It will borrow funds from the Deposit Bureau of the Bank of Japan

(5) It will subscribe as well as handle bonds and securities other than national bonds

c. Daiichi Bank (DAIICHI KINKO). On 12 February 1945 the formation of another bank or chest (KINKO) known as the First Bank was revealed. According to the information available, it was organized under the First Bank Law (DAIICHI KINKO HO) which was passed by the 86th Diet and began its operation on 12 February 1945. The purpose of organizing this bank is not known, however, the principal of this bank is said to have established within the Finance Ministry and the Vice Minister of Finance Matsukuma became the chief director.

B. CHANGES IN BANKING OPERATION

Despite the changes which have taken place in the Japanese banking structure, the basic methods of banking operation and the accounting system which have been explained in detail in this guide, have remained the same. There have been, however, a considerable number of minor modifications of the regulations and practices which were more or less brought about by wartime circumstances.

1. Emergency measures

On 8 December 1941, as an emergency measure, the Minister of Finance made an announcement that no bank moratorium was proposed. In case of need, the Bank of Japan, the Bank of Chosen and the Bank of Taiwan were to supply funds to needy banks to be used for payments to the depositors. These three banks were to guarantee the debts of the banks as an assurance to their depositors. They are to aid those whose businesses were damaged in war (bombings, etc.) by granting rediscount on their papers to the banks who hold such commercial instruments. The Industrial Bank of Japan, the Hypothec Bank of Japan and the Wartime Finance Bank would go to the aid of the armament concerns when they found themselves in financial distress caused by bombings or by their banks' refusal to furnish funds necessary for the production of armament.

The emergency measures also provided that the Minister of Finance would direct the local banks to undertake the payment

of deposits to war refugees who had deposits in banks of other cities. This type of withdrawal was limited to 100. yen per day and 300. yen per month. This was increased later to 200. yen per day, and 500. yen per month. These advance payments on behalf of other banks were at first limited to Special Current Deposits with the Ordinary Banks and Local Banks, Ordinary Deposits with the Savings Banks, and the Special Current Trust (TOKUBETSU TOZA KITAKU KIN) with the Pension Bank (SHOMIN KINKO). Later these were extended to include other kinds, such as Fixed Deposits with the Ordinary or Local Banks and Deferred Deposits with the Savings Banks. Furthermore, the emergency measures also allowed cash payments to depositors who had made the deposits for the purpose of buying government bonds.

A significant change took place in September 1943, when the government instructed all financial institutions to adopt the government fiscal year — 1 April to 31 March. Thus, the first fiscal half-year would end on 30 September and the second half on 31 March. It is believed, however, that the banks are continuing to distribute dividends and bonuses at the end of June and December, as was done previously. In March 1944, the Minister of Finance ordered banks, trust companies, insurance companies, clearing houses, postal savings offices, credit associations, etc. to extend their working hours and to remain open on Sundays, closing only on major national holidays.

As an emergency measure, the Minister of Communications announced in September 1943 that working hours of the post office were to be extended beyond 5:00 P.M.; depositors who lost their pass books would be allowed to withdraw their deposits up to 50. yen, upon furnishing a guarantor; depositors would be allowed to withdraw deposits up to 500. yen on pass books issued by other post offices; those who lost Postal Money Orders would be allowed to receive money from the post office upon presentation of a guarantor, and when the identifying seal was lost, depositors would be allowed to use the thumb-print identification.

2. Deposit division

In December 1944, the Japanese Financial Control Association and the Industrial Control Association reached an agreement whereby the industries would transfer dividends to the deposits accounts of their shareholders rather than pay in cash. This step was evidently based upon the practical desirability of simplifying the payment of dividends, increasing bank deposits and reducing the currency circulation.

In the 21 March 1944 issue of the newspaper *Yomiuri Hochi*, it was stated that the Minister of Finance was considering the appli-

cation of a policy which would simplify regulations regarding changing ownership of deposits. In the past, such a change was a time-consuming process, even when the request was made to the bank where the money was kept. The new policy would make it possible to change the ownership of deposit even when the money is kept in a bank other than that where the application for change was made.

a. Fixed deposits. Although it had been ruled that fixed deposits were not to be withdrawn before their maturity date, this was revised to enable the depositors to withdraw before maturity. The Deferred Deposits which were handled by the savings banks were also allowed to be withdrawn before maturity. The depositors, in this case, would receive the same interest rate as had been contracted for.

Due to the amendment in the tax law passed by the 84th Diet, the National Financial Control Association decided on 5 April 1944 to lower the interest rate on fixed deposits held by all local banks. This amendment levies a 5 percent tax on all interest on bank deposits. The rate on fixed deposits held by all local banks is fixed at 3.3 percent.

In an effort to encourage the people to save, the banks introduced a new type of fixed deposit in June 1944, known as the *Bonus Fixed Deposit* (WARIMASHI KIN TSUKI TEIKI YOKIN). Under this innovation, depositors are required to keep their money in the bank for two years at an interest rate of 3 percent per annum. Besides the payment of interest on the deposit, the bank offers a lottery ticket to each depositor for a deposit of every 100. yen. Prizes of 10,000. yen for every 100,000 tickets and other minor prizes ranging from 10. yen to 1,000. yen are drawn for every year in August.

b. Special current deposits. As a wartime measure, ordered by the Minister of Finance, all owners of this type of deposit who have lost their pass books are allowed to withdraw up to 50. yen of their deposits upon furnishing a co-signature. This rule applies regardless of whether the drawer has an account with the paying bank or whether he has an account with another bank that had issued the pass book.

c. Current deposits. On 1 April 1944 the National Financial Control Association instructed all the banks in the 6 large cities—Tokyo, Osaka, Kobe, Nagoya, Kyoto, and Yokohama—not to pay interest on their current accounts. The Ordinary Banks and the Local Banks in other areas were to raise the minimum balance on which the interest was to be calculated. This step was taken in order to simplify banking operations in view of the shortage of skilled bank employees.

3. Loan division

Aside from making advance payments on deposits to war refugees, the Japanese government also made provision for loans to those who suffered directly or indirectly from the war. These loans are said to be handled by the People's Bank (SHOMIN KINKO). Although precise information is not available, it is probable that the ordinary, local and savings banks are also handling these loans either as agents of the People's Bank or independently under their own rules with government guarantee. These loans are of two types. One is the SOKAI HI which is translated as "expenses necessary for the evacuation of civilians" and the other is the SENSAI TOKUBETSU KASHITSUKE or "special loans for war sufferers."

It is generally believed that the Japanese Government is appropriating some funds for the evacuation of civilians as well as industries, but exact information on this subject is not available. The SOKAI HI loan mentioned above is limited to 3,000. yen except in special cases where it then can be increased to 5,000. yen. The borrower need not prove his identity, but he must furnish a guarantor who is a local resident. The interest rate on this loan is fixed at 7.5 percent and is to be repaid in three years on a monthly installment basis.

The Special Loan for War Sufferers is handled by the People's Bank. This loan is made to persons who incurred losses or suffered injuries directly or indirectly from bombings. It is to be applied for within six months from the time the loss or injury occurred and is to be used for living expenses, hospitalization and the rehabilitation of business. The amount is limited to 2,000. yen per family. In special cases, the loan may be increased to 3,000. yen. The interest rate is fixed at 6 percent per annum, and one co-signer is required, except where the loan is recommended by the police. The period of the loan is from three to five years and is to be repaid in monthly installments.

a. Loans on bills. Exact data explaining the types of loans in which Munitions Bills are handled are as yet unobtainable, but judging from the information at hand, it is reasonable to assume that the Munitions Bills are handled by the ordinary and local banks as Loans on Bills (TEGATA GASHI) and they are re-discounted by the Bank of Japan. This assumption is based upon the fact that loans made on bills by Ordinary Banks amounting to 12.3 billion yen¹ on 30 June 1941, increased to 17.6 billion yen on 30 April 1943. On the other hand, loans on deeds decreased slightly during

¹ Civil Affairs Handbook, M354-5, Section 5, *Money and Banking*, p. 122.

the period of 31 December 1941 to 30 April 1943. Bills discounted show a nearly 300 million yen decrease between 30 June 1941 and 30 April 1943. These developments indicate that the Munitions Bills are regarded by Ordinary Banks as Finance Bills rather than as Commercial Bills.

The Industrial Bank of Japan, on the other hand, finances the armament industries through use of Bills Discounted. Loans on this account have increased from 1,450 million yen on 30 June 1941 to 2,201 million yen on 30 June 1942.¹ The Bank of Japan handles this type of loan in the form of Bills Discounted; that is, granting rediscount on Munitions Bills to Ordinary Banks. On 30 June 1941, the amount of Bills Discounted by the Bank of Japan was 275 million yen. It increased to 3,769 million yen on 30 March 1944.²

Munitions bills. On 26 August 1941, the Minister of Finance issued an order setting up a Munitions Bills Acceptance System. This was a device to facilitate and regulate the financing of loans needed by those engaged in the production of arms, aircraft, war-ships and other materials necessary for war. Under this system, the munitions companies were authorized to draw bills on the Industrial Bank of Japan for an amount not exceeding the value of orders involved. These bills are certified and stamped by the Army or Navy and are accepted by the Industrial Bank of Japan. The Ordinary Banks granted loans on these bills, and they, in turn, obtained rediscount from the Bank of Japan. After the organization of the National Financial Control Association in May 1942, the administration of the Munitions Bills Acceptance System became one of the major functions of this association.

Available information does not clarify whether the discounts on Munitions Bills are for the supply of working capital or for the fixed investments of the armament concerns. The rules governing the Designation System state that in case a Special Bank and Ordinary Bank cooperate in financing the armament concerns, the Ordinary Bank is to finance the working capital while the Special Bank is to finance the fixed capital or equipment. It can be reasonably assumed, therefore, that loans on Munitions Bills made by the Ordinary Banks to armament concerns are for the working capital of the same.

The *Berliner Borsen Zeitung* of 13 November 1943 discloses the amount of rediscounts by four of the Big Five Banks with the Bank of Japan as of 5 November 1943, as follows:

¹ See *Money and Banking*, M354-5, p. 127.

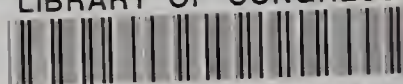
² See *Money and Banking*, M354-5, p. 117

(In Million Yen)	
Teikoku Bank	455.
Yasuda Bank	102.
Sumitomo Bank	210.
Sanwa Bank	80.
	847.

b. Loans on deeds. The rules governing the Designation System of financing the armament industries state that financial transactions between the designated bank and the cooperative group are to be carried out on the basis of Loans on Deeds. This means that the financial organizations which are within the cooperating group will loan money to the designated bank in the form of Loans on Deeds. No statistics are available to show the extent of increase in this type of loan.

c. Overdrafts. In the past, the interest on overdrafts had been calculated four times a year, or twice within a fiscal half-year. This was reduced to twice a year by the National Financial Control Association, by a new rule which became effective in April 1944. Similar in purpose to many other measures taken by the association, it is meant to simplify banking operations in view of the shortage of skilled bank personnel.

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